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1984 FINANCE FACTS YEARBOOK

A Factbook About
Consumers and the Consumer
Finance Business

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FOREWORD

Finance Facts Yearbook is an annual publication of the American Financial Services Association (formerly known as National Consumer Finance Association) which also publishes the monthly "Finance Facts" and research reports on consumer financial matters. These and other publications are offered at a nominal charge as a public service by the American Financial Services Association, whose members number 550 companies providing financial services to consumers through over 15,000 offices in the United States and Puerto Rico.

AFSA's membership is comprised of organizations commonly referred to as consumer finance companies, sales finance companies, industrial banks and industrial loan companies. Some members have insurance and retail subsidiaries, some offer commercial financing, some have manufacturing subsidiaries, some operate in Canada and some in Europe, Australia and Asia. Several members of AFSA are subsidiaries of highly diversified parent corporations, while others are subsidiaries of manufacturing companies, others of insurance companies, and others of bank holding companies.

The first six chapters of the yearbook provide a convenient reference source of current information about significant aspects of the consumer sector. The human factors are briefly outlined: the size and make-up of the population as the underlying determinant of the types of goods and services needed; and the size and make-up of the adult population as the potential labor force to supply those goods and services. A review of consumer income, expenditures, saving and investment is followed by a description of consumer credit and the institutions involved.

Chapter 7, "The Consumer Finance Industry," provides a description of the business of finance companies and industrial banks, their markets, their sources of funds and other distinguishing characteristics of these financial institutions. Included is a brief account of the legal and regulatory framework within which these companies operate as well as the latest statistical information relative to finance company operations. The final section of Chapter 7, "DIDMCA" relates the implications for finance companies of the implementation of provisions of the Depository Institutions Deregulation and Monetary Control Act of 1980.

Finally, the "List of References" may be helpful to those who wish to obtain more information on the consumer finance industry.

Thomas A. Durkin
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Services Association

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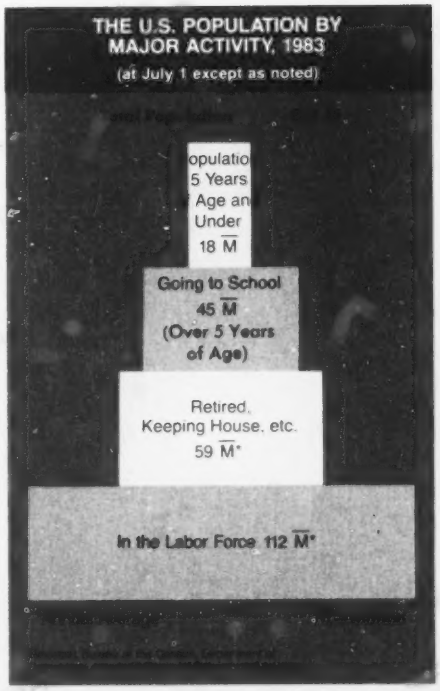
CHAPTER 1

THE POPULATION

The size and composition of the population are important determinants of the extent of consumers' demands for goods and services and of the types of products required to satisfy them. Demographic and geographic characteristics, the education and mobility of the population, as well as other characteristics, are important factors in determining the amount consumers will save, invest and spend, and, more indirectly, in determining the types of goods produced. The size of the labor force, for example, places one restraint on the goods and services made available by any economy. Historically, long-term growth has been a feature of the United States economy, and has been possible in part by the existence of a large and growing skilled labor force, a wealth of entrepreneurial spirit and ambition, and constantly developing technology within a stable political system.

To provide the goods and services sufficient to satisfy the demands of the entire U.S. economy, well over half of the population contribute to production, either in the labor force or in the home. Almost one-fifth of the U.S. population are currently in the process of being educated and trained for the world of work, presumably to secure for the future the productive capacity of our economy. The resident population of the U.S. excluding members of the Armed Forces overseas was estimated at 234 million in 1983. Of this total about 112 million (48%) were in the labor force and about 45 million (19%) were in school (Chart 1). Many of these students were also working, at least part-time. As demographic characteristics of the population are important in determining current patterns of spending, saving, and production, projections about these characteristics permit some advance planning for use of resources by individuals, business and government. The following

CHART 1



sections provide data on some of the more relevant demographic determinants of economic activity.

Population Growth and Family Formation

The population of the United States excluding members of the Armed Forces overseas was estimated in mid-1983 to be 234.2 million. By 1990, it is expected to increase by almost 4% to stand at approximately 243.5 million. This projection suggests an annual growth rate of approximately 0.6% (Table 1). Growth rate changes reflect, for the most part, changes in the birth rate and, to some extent, changes in immigration policy.

As the birth rate in the United States declined after 1957, the growth rate of the population fell to low levels of 1% or less starting in 1968. Preliminary data for 1983 from the U.S. Department of Health and Human Services suggest a natural increase in population during 1983 of 0.69%, compared with 0.74% in 1982, and an increase of 0.2% from immigration. The number of births in 1983 declined from 1982 by 100,000 to 3.6 million. This is in contrast to an average of 4.2 million each year during the first half of the 1960's.

The decline in the number of births in 1983 is evidently associated with two factors. The first factor is that the population in the childbearing ages is beginning to age. Births to women under 25 years typically account for nearly half of all births, and during 1983 the number of women in this age group declined slightly. The second factor is the decline in the fertility rate which undoubtedly reflects declines in at least some of the age-specific birth rates. According to projections by the

TABLE 1

POPULATION AND NUMBER OF HOUSEHOLDS
JULY 1, 1979-1995*

(In millions)

	1979	1980	1981	1982	1983	Projected** 1990	1995
Population	220.6	228.7	229.8	232.0	234.2	243.5	252.6
Households	77.3	80.8	82.4	83.5	83.9	96.7	103.9
Husband-wife	47.6	49.1	49.3	49.6	49.9	54.7	56.7
Other	29.7	31.7	33.1	33.9	34.0	42.0	47.2
Male Householder	9.7	10.5	11.2	11.4	11.5	14.9	17.1
Female Householder	20.0	21.1	21.9	22.5	22.5	27.1	30.1
Living Alone***	(17.2)	(18.3)	(18.9)	(19.4)	(19.3)	na	na

Source: Bureau of the Census

Note: Parts may not add to totals due to rounding.

* Population and projected households as of July 1 of each year; estimates of households for years 1979 through 1983 are as of March.

** Population growth conforms to the Census Bureau Series II projection which is the middle estimate of three projections. Projections of number of households are the Census Bureau Series B based upon trends in marital status and householder proportions over the 1964-1978 period. A household consists of a person or group of persons who occupy a house, an apartment or other group of rooms, or a room that constitutes a housing unit.

*** Of the "other" households, those that constitute one-person households.

Bureau of the Census, the number of women in the childbearing ages will increase only about 1 percent annually between 1983 and 1985. Therefore, unless some of the apparent declines in age-specific birth rates are reversed, there may be little or no increase in the annual number of births. The death rate has remained fairly stable over the past five years and stood at 8.6 per thousand in 1983.

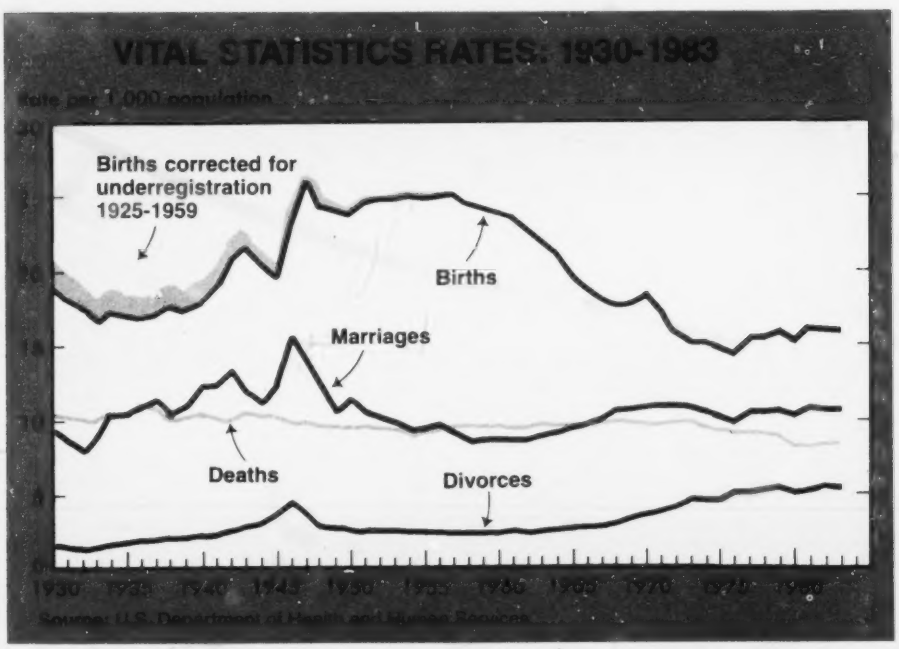
The number of marriages increased steadily from 1958 low of 1.45 million, reaching 2.28 million in 1973. There was then a decline to 2.13 million in 1976, followed by a gradual rise to almost 2.5 million in 1982. In 1983 the number of marriages declined for the first time since 1975 to just over 2.4 million. The marriage rate per 1,000 population decreased in 1983 to 10.5, lower than in 1982. The divorce rate, which had increased rapidly since 1971 has now dropped for two consecutive years. In 1983 there were approximately 1,179 thousand divorces, a rate of 5.0 per 1,000 population (Chart 2).

Households

Trends in family formation and in the number of households have special economic significance because the primary unit of consumption is often not the individual but the family or the household. This is especially true for housing and consumer durable goods such as automobiles, home furnishings and appliances. If, as is expected, present trends in family and household formation continue and the long-term trend in economic activity continues generally upward, it is anticipated that the number of households will increase from 83.9 million in 1983 to about 96.7 million in 1990 and 103.9 million in 1995.

There were 83.9 million households in the U.S. in March of 1983, an increase of 7.9 million since 1978. About 32% (2.5 million) of this increase consisted of husband-wife (and family) households, while 33% (2.6 million) of the increase consisted of people living alone. The remainder of households were composed of two

CHART 2



or more persons, other than married couples. This group accounted for 35% of the growth in all households. According to the Bureau of the Census, the average number of persons per household in March 1983 was 2.73 persons, up from 2.72 the previous year and the same as in 1981. This average has dropped off steadily since 1964 when the average household size was 3.33 persons. The change has resulted from the falling birth rate through most of the 1960's and 1970's (which is reflected in a decrease in average number of children under 18 years of age per household from 1.23 in 1964 to 0.74 in 1983) and the increasing proportion of adults who are living alone (19.3 million in 1983). Average population per family (of related persons) dropped from 3.70 in 1964 to 3.26 in 1983.

TABLE 2

POPULATION INCLUDING ARMED FORCES ABROAD
BY AGE AND SEX JULY 1, 1978-2000

(In millions)

	1978	1979	1980	1981	1982	1983	Projected 1990	Projected 2000
Years of Age								
Both Sexes								
Under 5	15.4	15.6	16.5	16.9	17.4	17.8	19.2	17.6
5 to 15	39.6	38.6	38.8	38.1	37.7	37.3	38.6	42.1
16 to 24	37.4	37.6	38.8	38.7	38.2	37.6	32.3	32.2
25 to 34	34.0	35.0	37.6	39.0	39.6	40.3	43.5	36.4
35 to 54	47.6	48.1	48.6	49.1	50.6	51.8	63.2	80.8
55 to 64	20.7	21.0	21.8	21.9	22.1	22.2	21.1	23.8
65 and over	24.1	24.7	25.7	26.3	26.8	27.4	31.8	35.0
Total	218.7	220.6	227.7	230.0	232.3	234.5	249.7	268.0
By sex								
Under 16								
Male	28.1	27.7	28.3	28.1	28.1	28.2	29.6	30.6
Female	26.9	26.6	27.0	26.9	26.9	26.9	28.2	29.2
16 to 24								
Male	18.9	19.0	19.6	19.6	19.4	19.1	16.4	16.4
Female	18.5	18.6	19.1	19.1	18.8	18.5	15.8	15.8
25 to 54								
Male	40.0	40.8	42.4	43.4	44.4	45.5	52.9	58.4
Female	41.5	42.3	43.8	44.7	45.7	46.7	53.8	58.8
55 to 64								
Male	9.8	9.9	10.2	10.3	10.3	10.4	9.9	11.3
Female	10.9	11.0	11.6	11.7	11.8	11.8	11.2	12.5
65 and over								
Male	9.8	10.0	10.4	10.6	10.8	11.0	12.7	13.7
Female	14.3	14.6	15.3	15.7	16.0	16.4	19.1	21.3
Total								
Male	106.6	107.5	110.9	112.0	113.1	114.2	121.5	130.4
Female	112.1	113.1	116.9	118.0	119.2	120.3	128.2	137.6

Source: Bureau of the Census
Note: Parts may not add to totals due to rounding.

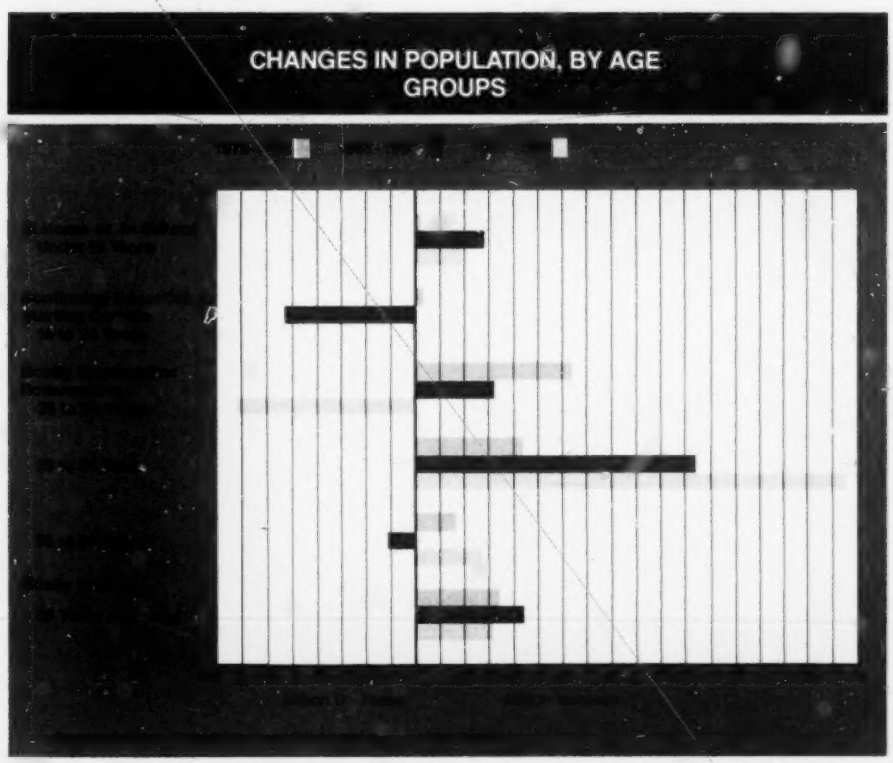
Age Groups

The number of persons in various age groups of the population imposes requirements on the economy, particularly in the areas of education, the job market, the market for various goods, etc.

Table 2 details the U.S. population, including Armed Forces members residing abroad, by age group and within age group by sex as estimated for the years between 1978 and 1983, and as projected by the Census Bureau for 1990 and 2000. While the total number in each group is of interest for present-day marketers and others currently serving the consumer, the rate at which the size of these groups is changing is of greater concern, for purposes of planning, to business and government. The changes in the size of the various age groups from 1978 to 1983 and projected to 1990 and to 2000 are shown in Chart 3.

The number of young people at home or in school — those under 16 years of age — was almost the same in 1983 as in 1975 at about 55 million, but is expected to increase by 2.7 million between 1983 and 1990 and by 2 million between 1990 and 2000. The number continuing in education or starting careers — those 16 to 24 years — declined 0.6 million during 1983 to 37.6 million. The number in this group will continue to decrease as the century reaches its end. The largest segment of the population, and most homogeneous in terms of productivity, those between 25 and 64 years of age, most of whom are either in the labor force or work at home, numbered 12.2 million more in 1983 than in 1978. This group will grow to approximately 128 million by 1990, and by about 13 million between 1990 and 2000. The population 65 and over, most of whom are retired, numbered 3.3 million more in 1983 than in 1978.

CHART 3



Population Mobility

The mobility of the population, in addition to its size and other features, is an important factor in determining what and where the country's economy will be required to produce. The location of an industry's center or the need to transport finished or unfinished products across the country can be greatly affected by movements in the population, just as changes in industry can affect the mobility and geographical distribution of the population. The highest mobility rates are usually among persons in their twenties. Many are in the process of establishing households, starting new jobs, finishing school or service in the Armed Forces, or have been recently married. In their later twenties, many are buying homes or moving to larger living quarters because of growing families, or are moving to housing more convenient to schools.

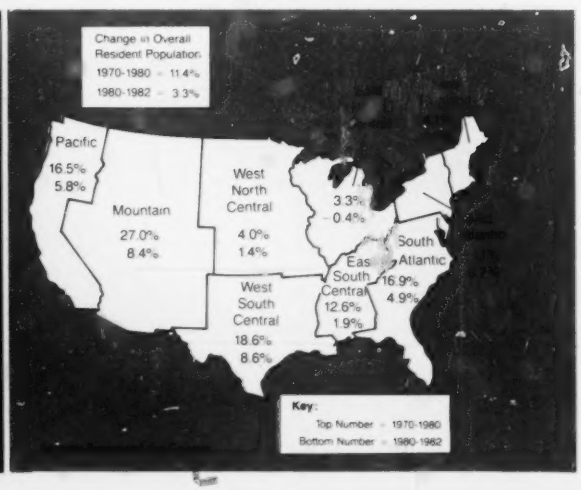
In the period between March 1981 and March 1982 about 17 percent of the U.S. population moved to a different residence within the United States. Comparison with the rates of the early 1970's and 1960's shows a steady decline in residential mobility (the rate in 1960-61 was about 20 percent). The decrease seems primarily due to the lower rates of local moves (moves within the same county). By educational attainment, mobility during this period was as follows: 10.2% of persons with 8 or fewer years of school completed had moved to a different house in the United States, while 16.7% of those with 4 years of high school and 17.5% of those with at least 4 years of college had moved.

Population Change by Region

The total U.S. resident population growth in the periods between 1970 to 1980 and 1980 to 1982, and growth in various regions of the country are shown in Chart 4. Greater than the overall U.S. gain in the resident population between 1970 and 1980 occurred in the Pacific, Mountain, West-South-Central, East-South-Central and South Atlantic States. Between 1980 and 1982, growth was higher than overall in the same group with the exception of the East-South-Central States. Declines in resident population occurred in the Mid-Atlantic States during the earlier period and in the East-North-Central States since 1980. Part of the differential in rates of population growth is explained by differing birth rates, but most of the difference has resulted from changing economic developments and the highly mobile character of the population of the United States.

CHART 4

CHANGES IN RESIDENT POPULATION BY REGIONS, 1970-1980 and 1980-1982



CHAPTER 2

IN SCHOOL AND ON THE JOB

The potential of an economic system to provide goods and services to satisfy the demands made of it is limited by the size and skills of its labor force and by its managerial capabilities.

Labor force participation and education are necessarily interrelated in the modern world. The quality of the present-day work force is a product of past education and training. The continued productivity of the labor force will also depend on education and training, and on a multitude of government policies and incentives, both intended and unintended.

Potential Labor Force

The potential labor force, defined as the noninstitutional population 16 years of age and over, consisted of an average of 175.9 million people in 1983, 1.2% higher than the 1982 figure (Table 3).

Actual Labor Force

The actual labor force, defined by the Department of Labor and the Bureau of the Census as those persons employed and looking for employment, was about 113.2 million in 1983, also 1.2% larger than in 1982.

Those 16 years of age and over who were not in the labor force — those keeping house, going to school, unable to work and retired — numbered 62.7 million in 1983, up about 1.1% from 62.0 million in 1982.

School Enrollment

Approximately 57.9 million persons between the ages of 3 and 34 were enrolled in schools or colleges in the United States either full or part-time in October, 1982, the latest date for which statistics are available (Table 4). This group comprised 47.6% of the total resident population in this age group, slightly less than the figure for 1981.

School enrollment among children 3 and 4 years old has increased markedly since 1970. In 1970, there were 1.1 million children enrolled in nursery school, compared with 2.2 million in 1982. This increase is primarily due to higher enrollment rates among 3 and 4 year-olds, rather than any drastic increase in the number of eligible nursery schoolers.

The declining number of younger children, however, has caused gradual decline in the grade school population. Elementary school enrollment peaked in 1970 at 34.0 million and had dropped by 24.1% to 27.4 million in 1982. High school enrollment in 1982 was, at 14.1 million, just slightly below the 1970 enrollment figure. There has also been a significant (47%) increase in the number of college students since 1970, and the total number has now reached 10.9 million. From 1970 to 1982 the majority of the increase in college enrollment was due to the growth in college attendance by women (3 million in 1970, 5.5 million in 1982). In fact, there were 100 thousand more women than men en-

TABLE 3

LABOR FORCE PARTICIPATION OF THE POPULATION 1978-1983

(In millions of persons, annual averages)

	1978	1979	1980	1981	1982	1983
Noninstitutional Population*	164.0	167.0	169.8	172.3	173.9	175.9
Labor Force including armed forces.....	104.4	107.0	109.0	110.8	111.9	113.2
Armed forces.....	2.1	2.0	2.1	2.1	1.7	1.7
Civilian labor force.....	102.3	105.0	106.9	108.7	110.2	111.6
Employed.....	96.0	98.8	99.3	100.4	99.5	100.8
Unemployed.....	6.2	6.1	7.6	8.3	10.7	10.7
Not in labor force.....	59.7	59.9	60.8	61.5	62.0	62.7

Source: Bureau of the Census and Bureau of Labor Statistics.
Note: Parts may not add to totals due to rounding.

*Does not include those in mental, penal or welfare institutions.

rolled in college in 1982, as has been the case each of the past four years. All of these developments coincide with other social and economic changes that have emerged recently among women such as marrying later, having fewer children, increased participation in the labor force, and continuing to work after children are born. The proportion of women in the labor force has risen steadily since 1970, the civilian labor force participation rate for women having risen from 43.3% in 1970 to 52.6% in 1982. Since 1980, more women have participated in the labor force than have not.

Labor Force Participation

The total labor force, including members of the Armed Forces, averaged 113.2 million in 1983, up 1.3 million, or 1.2%, from 1982 (Table 3). With no change in the number of Armed Forces members, the civilian labor force also rose by 1.3 million. Average civilian employment for the year had decreased by almost 1 million to 99.5 million in 1982 (the first such decrease since 1975). This decline has been recovered and the average civilian employment for 1983 was 100.8 million. While the number of unemployed persons in 1983 averaged about the same, at 10.7 million, as in 1982, the labor force and employment grew significantly.

Labor force participation changes from time to time for many homemakers, students, retired and disabled persons and persons "doing their thing." By age, those in the 16 to 19 year age group are the least likely to be consistently in the labor force and their participation has been dropping since early 1979 (Chart 6). There is a slow long-term decline in the participation rate of males 20 years of age and over, from 82.0% in 1972 to 78.3% in December, 1983. By contrast, participation by women 20 years of age and over has increased from 43.9% in 1972 to 53.2% in 1983, with intermittent periods of even higher participation. Distributions of young people (16-21 years of age) in school and in the labor force are shown in Chart 5.

TABLE 4

ESTIMATED SCHOOL ENROLLMENT 1978-1982*

(In thousands)

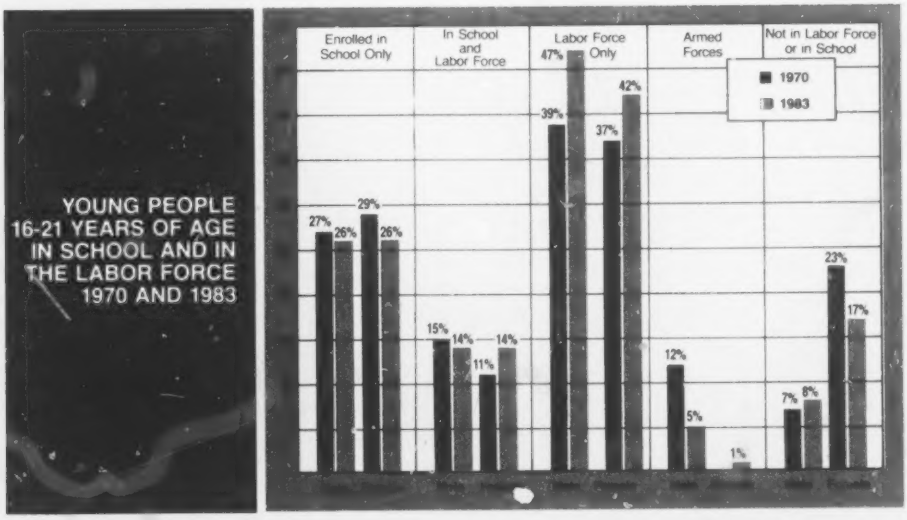
By Grade	1978	1979	1980	1981	1982
Nursery school	1,824	1,869	1,987	2,031	2,153
Kindergarten	2,989	3,025	3,176	3,272	3,299
Elementary school	28,490	27,865	27,449	28,241	27,412
High school (grades 9-12)	15,475	15,116	14,556	14,935	14,123
College or professional school	9,838	9,978	10,180	10,473	10,919
Total	58,616	57,854	57,348	58,953	57,905

Source: Bureau of the Census

Note: Parts may not add to totals due to rounding.

* As of October of each year.

CHART 5



Industry Employment

While employment in all industries started 1983 at low levels, mining was the only industry in which employment did not increase at least slightly from year-end 1982 to year-end 1983. The largest increase in jobs was in manufacturing where there were over 1 million more jobs at the end of 1983 than at the end of 1982 (Chart 7).

Occupations

The number of employed civilians at the end of 1983 had risen almost 4 million from the year earlier to 102.8 million (Table 5). The number of white-collar

workers was 56.2 million in 1983 up 2.4% from 54.9 million in 1982. Among white-collar workers, the number of engineers grew fastest at 7.3%. The number employed in service occupations increased 5.4% and the number of farm jobs fell by 138 thousand to 3.1 million. The Bureau of Labor Statistics has recently redefined occupational categories to reflect changes in industry more accurately. Table 5 is based on these new categories.

Unemployment

The unemployment rate averaged 9.4% in 1983 comparing favorably with the 9.7% average of monthly rates experienced in 1982. The rate for teenagers, however, averaged 22.4% in contrast with the 8.9% rate for adult males and 8.2% for adult women (Charts 8, 9). The Help-Wanted Index of The Conference Board, one indicator of current demand for new workers, reached its high of over 150 in 1978 (1967 = 100). It was at a ten-year low around 72 in 1982, and had rebounded to 83 by year-end 1982. As the recovery then proceeded, the index reached 121 by the end of 1983 (Chart 9).

The Labor Force in the Future

The civilian labor force's projected growth to 125 million by 1990 will produce quite a different age distribution profile from that which developed during the 1970's and early 1980's (Chart 10). The proportion of 16-19 year olds in the labor force in 1990 will be approximately 6.3%, compared with 7.3% today. The 20-24 year old age group's proportion will also decline to 11.4% from 14.4%. The 25-54 year old bracket will grow from 64.8% of the labor force to 71.0%. Both of the age

CHART 6

CIVILIAN LABOR FORCE PARTICIPATION RATES BY SEX AND AGE, 1965-1983
(Seasonally adjusted)

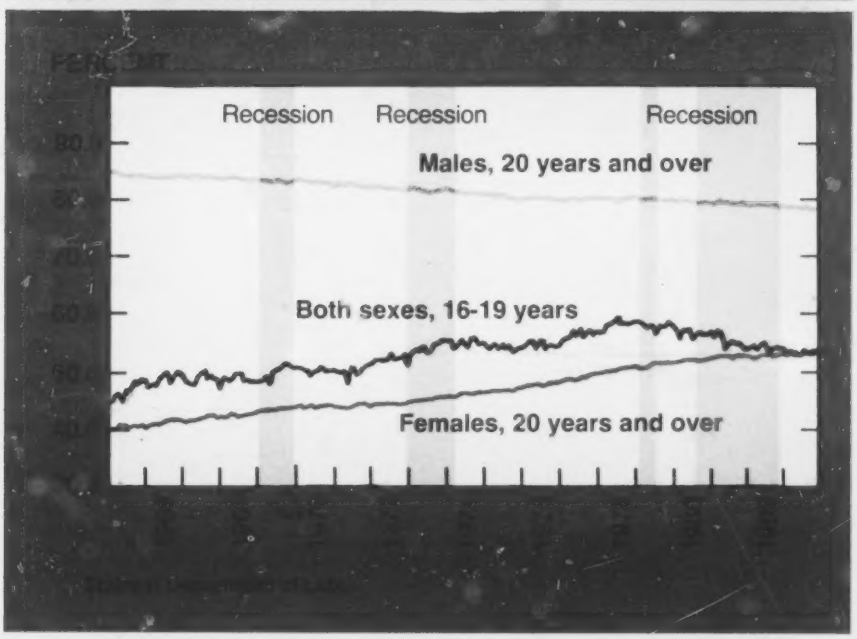
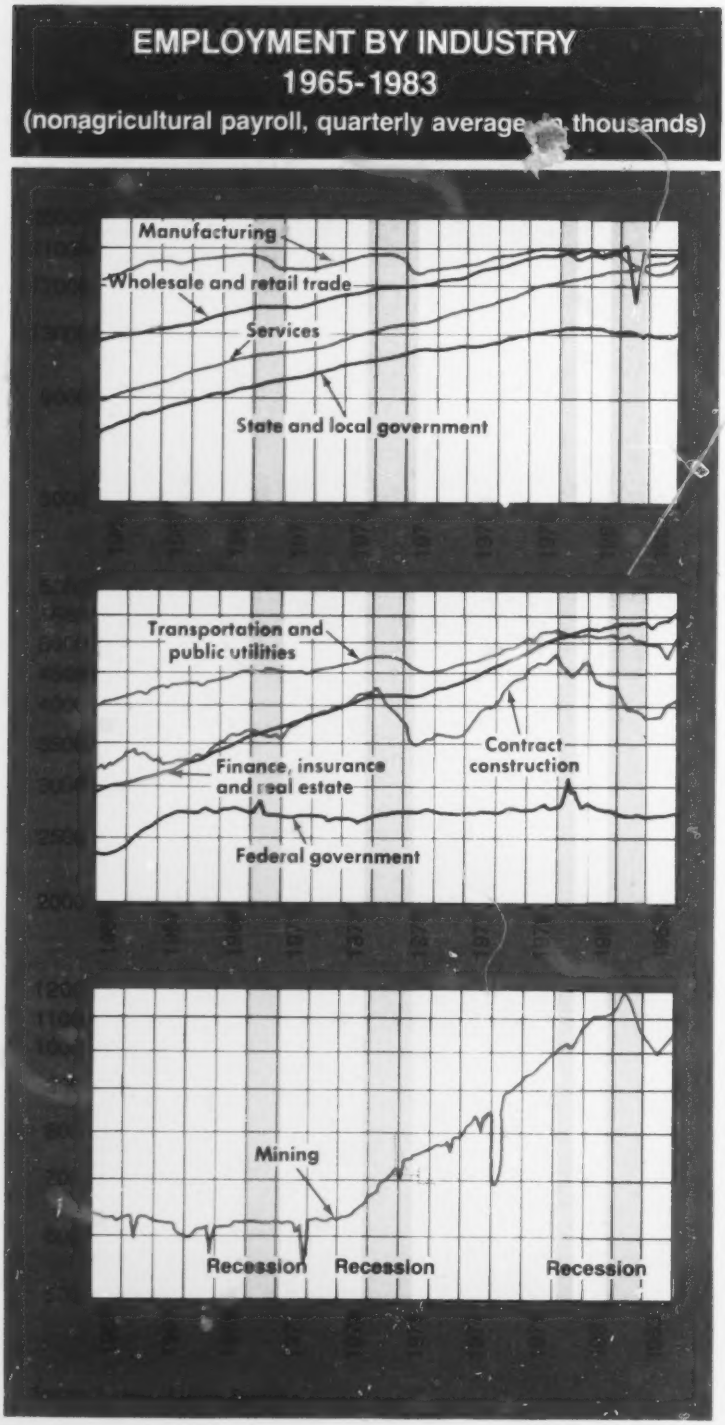


CHART 7


EMPLOYMENT BY INDUSTRY
1965-1983
(nonagricultural payroll, quarterly average, in thousands)
Manufacturing
Wholesale and retail trade
Services
State and local government
Transportation and public utilities
Finance, insurance and real estate
Contract construction
Federal government
Mining
Recession
Recession
Recession

groups over 55 will also comprise smaller proportions of the work force in 1990 than in 1983. This pattern is projected to continue through 1995.

TABLE 5

EMPLOYED CIVILIANS 16 YEARS AND OVER BY OCCUPATIONAL GROUPS, YEAR-END 1982* AND 1983

(In thousands)

	1982	1983
I. Managerial and Professional Specialty...	23,618	24,185
A. Executive/Administrative.....	na	8,014
B. Managerial.....	na	3,081
C. Professional Specialists (Total)....	12,924	13,091
a. Teachers (all levels).....	4,260	4,223
b. Health Specialists.....	2,586	2,566
c. Engineers.....	1,447	1,553
d. Scientists.....	891	852
e. Legal Professions (Lawyers and judges).....	602	636
f. Other Professional Specialties..	3,138	3,261
II. Technical Sales and Administrative..... Support.....	31,302	32,038
A. Administrative Support.....	16,308	16,407
B. Sales Occupations.....	11,868	12,507
C. Technicians and Related Support.....	3,127	3,124
III. Service Occupations.....	13,443	14,170
A. Food Service.....	4,772	5,053
B. Janitorial.....	2,594	2,733
C. Health Service.....	1,691	1,772
D. Personal Service.....	1,701	1,891
E. Protective Service.....	1,617	1,692
F. Private Household Service.....	1,068	1,030
IV. Precision Production, Crafts, Repair....	11,373	12,741
V. Operatives.....	15,845	16,576
VI. Farming, Forestry and Fishing.....	3,230	3,092
Total.....	98,849	102,802

*Source: Bureau of Labor Statistics.
Note: Parts may not add to totals due to rounding.

CHART 8

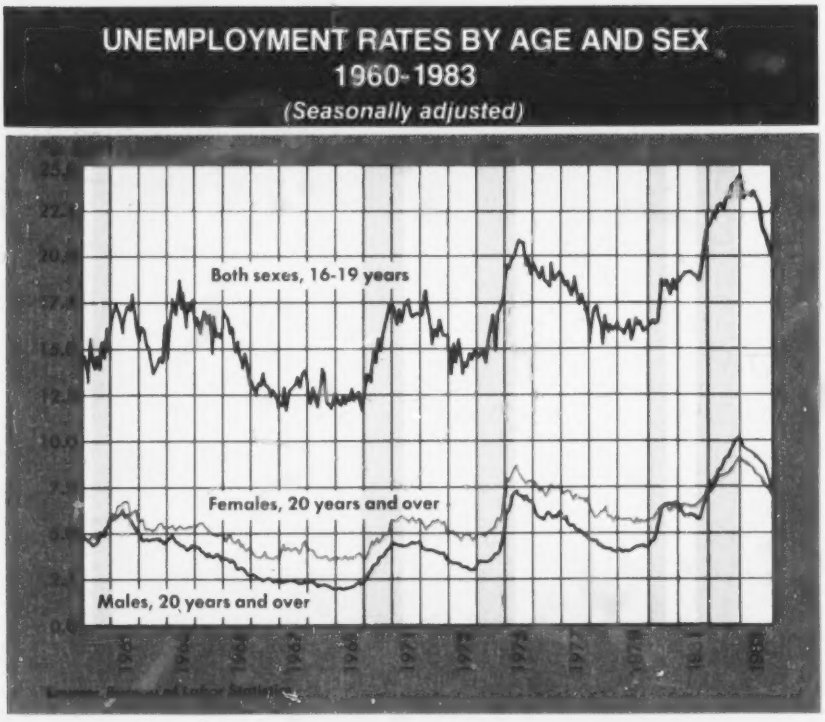


CHART 9

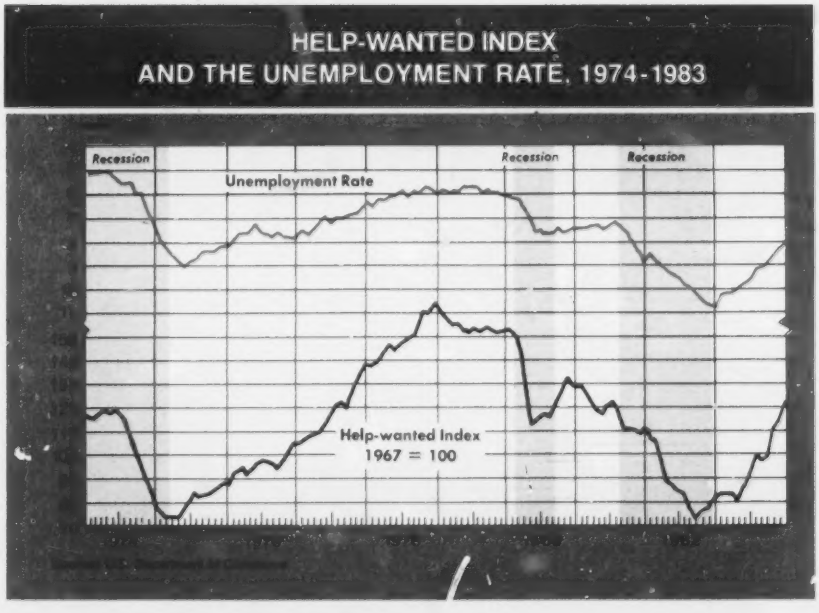
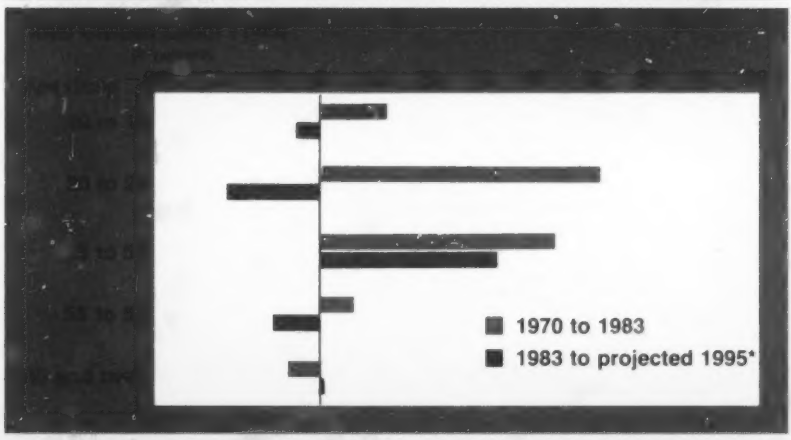
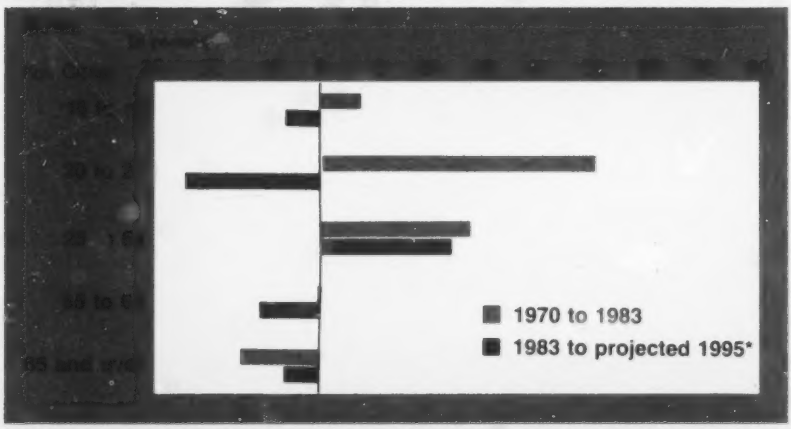
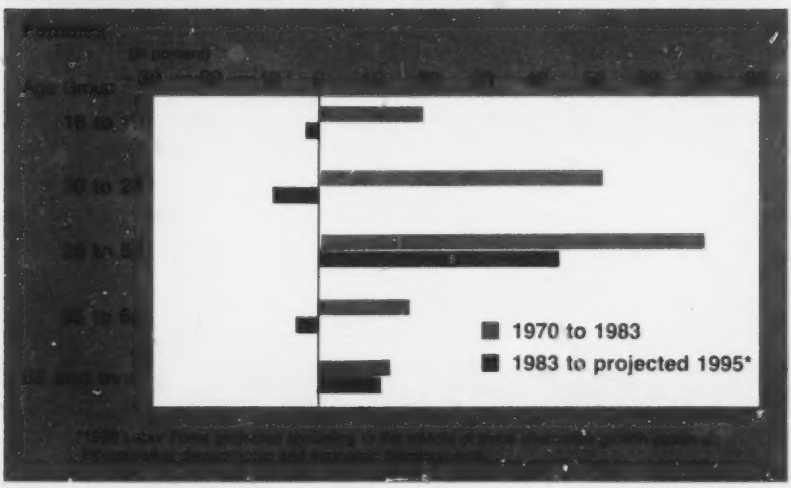


CHART 10

CHANGES IN THE LABOR FORCE BY AGE GROUP AND SEX, 1970-1983 AND 1983-1995 *







CHAPTER 3

CONSUMERS AND THEIR INCOME

One feature of a successful economic system is an income flow generated by the productivity of the economy. The income received by individuals for their labor productivity, investment in capital (in anticipation of future productivity) and as transfer payments (payments for which no service is currently rendered) from government are the major components of total personal income in the U.S.

Personal Income and its Sources

Personal income totaled $2,742.1 billion in 1983, for a gain of 6.3% (Table 6). Among the principal components of personal income as shown in the table, the greatest percentage increase during 1983 was in proprietor's income (up 18%) although this is a very small part of total personal income. Income from wages and

TABLE 6

SOURCES OF PERSONAL INCOME, 1977-1983

(In billions of dollars)

Year	Wages, Salaries and Related Income *	+ Proprietors' Income	+ Income from Rent, Interest and Dividends	+ Income from Transfer Payments**	- Personal Contributions for Social Insurance	= Personal Income
1977 ...	1,072.6	103.9	217.2	207.9	61.1	1,540.4
1978 ...	1,208.8	118.5	251.3	223.8	69.8	1,732.7
1979 ...	1,352.5	132.1	297.4	250.3	81.1	1,951.2
1980 ...	1,484.7	117.4	354.3	297.6	88.7	2,165.3
1981 ...	1,636.7	120.2	445.5	337.2	104.6	2,435.0
1982 ...	1,724.7	108.9	482.5	374.5	112.0	2,578.6
1983 ...	1,838.0	128.5	491.6	403.6	119.5	2,742.1

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

* Related income, which is called "other labor income" by the Department of Commerce, includes compensation for injuries, employer contributions under private pension and related programs, and other items such as the pay of military reservists and directors' fees.

** Transfer payments include benefit payments made under government (Federal, State and local) social security, unemployment and veterans' programs, and miscellaneous payments by business.

net transfer payments both increased more than overall personal income, while income from interest and dividends rose only 1.9 percent, much less than the 8.3% rise in 1982.

Transfer payments (income received by individuals, generally in monetary form, and for which no services are currently rendered) have been increasing faster than has income received by current producers. Liberalized social security, veterans', and government pension and welfare benefits accounted for most of these rises. The increases have also been accentuated by the tying of automatic social security and government pension benefit raises to increases in the consumer price index. Income from transfers amounted to 11% of total personal income in 1972, 13.8% in 1981, and 14.7% in 1983. Net transfer

TABLE 7

DISPOSITION OF PERSONAL INCOME, 1977-1983

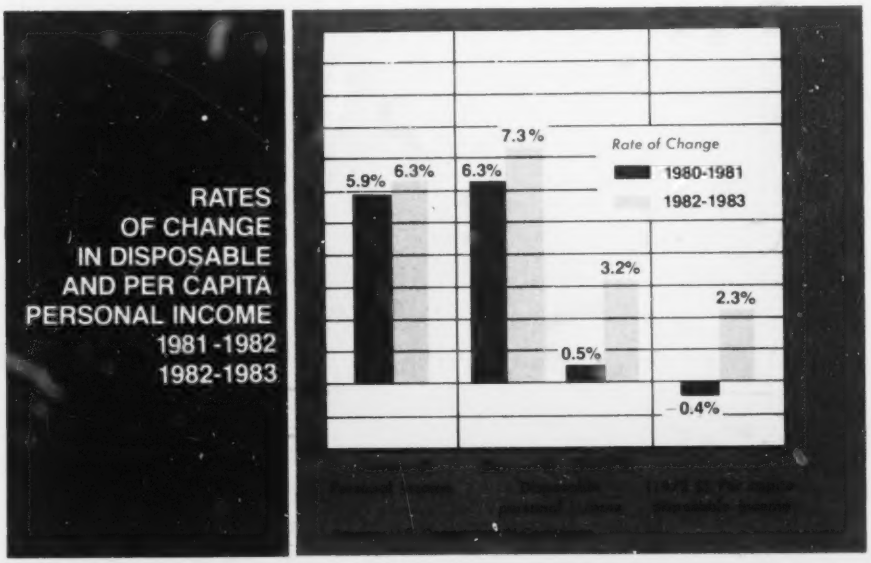
(In billions of dollars)

Year	Personal Income	-	Tax and Nontax Payments	=	Disposable Personal Income	-	Personal Outlays	=	Personal Saving
1977	1,540.0		226.4		1,314.0		1,236.0		78.0
1978	1,732.7		258.7		1,474.0		1,384.6		89.4
1979	1,951.2		301.0		1,650.2		1,553.5		96.7
1980	2,165.3		336.5		1,828.9		1,718.7		110.2
1981	2,435.0		387.4		2,047.6		1,912.4		135.3
1982	2,578.6		402.1		2,176.5		2,051.1		125.4
1983	2,742.1		406.5		2,335.6		2,222.0		113.6

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

CHART 11



payments (transfer payments less personal contributions for social insurance) were 7.4% of personal income in 1972, 9.6% in 1981, and 10.4% in 1983.

Disposable Income

Personal tax and non-tax payments for the year 1983 at $406.5 billion were 14.8% of total personal income (Table 7). Remaining after taxes was disposable personal icome of $2,335.6 billion, up 7.3% from 1982. Personal outlays for consumption at $2,222.0 billion were up a large 8.3%, leaving personal saving of $113.6 billion. Saving was thus 4.9% of the year's disposable personal income, quite low after saving of well over 5% of disposable income during the last several years.

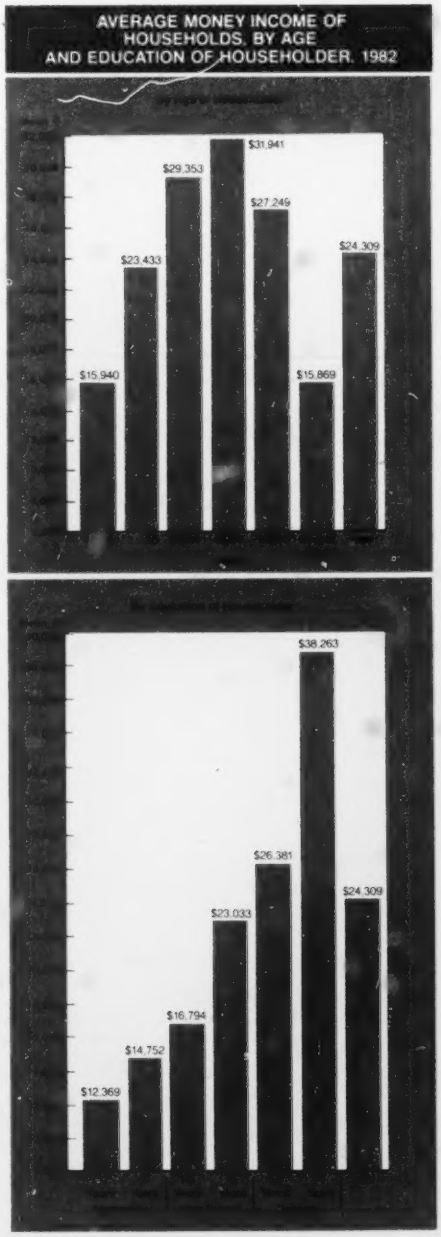
Real Income

One of the most frequently used measurements of the effect of price increases on income uses the Department of Commerce's price deflators to determine real income based on 1972 price levels. The derived rates of increase in personal income are shown in Chart 11. While total personal income in 1983 rose 6.3% and income after taxes rose 7.3% in current dollars, when adjusted for price changes by the personal consumption expenditures deflator, the rise in disposable personal income in 1983 was just 3.2%. When account is taken of population changes, 1983 real per capita disposable personal income at $4,672 (in 1972 dollars) was 2.3% higher than the $4,567 in 1982. This increase compares with a decline in 1982 of 0.4%.

Households and Families

The Census Bureau defines a household as "all of the persons who occupy a house, an apartment, or other group of rooms, or a room which constitutes a housing unit," whereas a family is defined as "a group of two or more persons related by blood, marriage or adoption and residing together." A family is thus essentially a sociological unit, whereas a household is an economic unit. It is the economic unit which is most often the primary unit of consumption for many goods and services, especially housing, household services, consumer durables, and also frequently for food.

CHART 12



Household Income

Median money income (before tax and nontax payments) for households in the United States was $20,171 in 1982, the latest year for which data are available from the Census Bureau. Mean household income in 1982 was $24,309 (Table 8).

As shown in Chart 13, household income tends to rise until the householder (head of household) reaches late middle age and to decline thereafter. By age of householder, the mean income in 1982 (total income for the group divided by the number in the group) ranged from $15,940 for households in which the head was under 25 years of age to $31,941 for households headed by a person between 45 and 54 years of age, back down to only $15,869 for households in which the householder was 65 years of age or older.

TABLE 8

SELECTED INCOME CHARACTERISTICS OF HOUSEHOLDS - 1982*

	Thousands of Households	Mean Household Income	Aggregate Income (In billions of dollars) (col 1 x col 2)
All Households	83,918	$24,309	2,039.9
Type of Household			
Male Householder	59,250	$28,223	1,672.2
Female Householder	24,668	$14,907	367.7
Number in Household			
One	19,250	$13,343	256.9
Two	26,439	$24,550	649.1
Three	14,793	$27,699	409.7
Four	13,303	$30,933	411.5
Five or more	10,133	$30,864	312.7
Type of Residence			
Nonfarm	82,071	$24,397	2,002.3
Farm	1,847	$20,382	37.6
Inside metropolitan area ..	57,393	$26,017	1,493.2
Outside metropolitan area .	26,524	$20,613	546.7
Owner occupied	54,494	$28,207	1,537.1
Renter occupied including no cash rent	29,423	$17,090	502.8
Region			
Northeast	17,926	$24,732	443.3
North Central	21,331	$24,161	515.4
South	28,120	$23,207	652.6
West	16,541	$25,913	428.6

Source: Bureau of the Census, AFSA

Note: Parts may not add to totals due to rounding.

* As of March 1983.

Education of the householder is also closely related to household income. The largest single educational group is that in which the householder has completed high school but gone no further in school. In 1982, this group comprised 34.7% of all households; mean income was $23,033, just below the overall household average. At one extreme, where the householder has completed 4 or more years of college, 20.2% of the households had mean income 57.4% above that for all households. At the other extreme, where the householder had completed less than 8 years of school, 8.6% of the households had mean income 49.1% below that for all households.

Other characteristics of households that reveal varying levels of household income are the number of persons in the household, type of residence (farm or nonfarm, inside or outside metropolitan area, owner or renter occupied), and region of the country (Table 8).

Family Income

The median income of all families in the United States was $23,433 in 1982 and the mean was $27,391 (Table 9). Median income in current dollars in 1982 was 4.7% above 1981.

In addition to the economic problems of recession and high-level inflation during the 1970's and early 1980's, there have been changes in family structure which have tended to lower average family income levels. From 1970 to 1982, for example, there has been a substantial increase in the proportion of families maintained by a female householder with no husband present (from around 10% to around 15%).

TABLE 9

DISTRIBUTION OF FAMILIES AND UNRELATED INDIVIDUALS BY TOTAL MONEY INCOME IN 1982

	Families		Unrelated Individuals	
	Thousands	Percent	Thousands	Percent
Total Money Income				
Under $5,000	3,684	6.0%	6,706	24.0%
$5,000 to $9,999	6,521	10.6%	7,274	26.1%
$10,000 to $14,999	7,653	12.5%	4,902	17.6%
$15,000 to $19,999	7,459	12.1%	3,423	12.3%
$20,000 to $24,999	7,575	12.3%	2,301	8.2%
$25,000 to $29,999	6,547	10.7%	1,324	4.7%
$30,000 to $34,999	5,438	8.9%	782	2.8%
$35,000 and over	16,518	26.9%	1,197	4.3%
Total	61,393	100.0%	27,908	100.0%
Memo				
Median Income	$23,433	—	$9,978	—
Mean Income	$27,391	—	$12,960	—

Source: Bureau of the Census.

Note: Parts may not add to totals due to rounding.

*As of March, 1983.

CHAPTER 4

CONSUMERS—THEIR SPENDING AND CAPITAL FORMATION

Together with investment by producers and spending by governments and foreigners in the domestic economy, the spending decisions of consumers determine both the level and composition of U.S. economic output. The broadest measure of output is gross national product (GNP), which is most commonly measured in terms of expenditures in order to quantify the output of the economy.

TABLE 10

GROSS NATIONAL PRODUCT, BY SECTOR, 1977-1983

		Personal Consumption Expenditures						
Year	Total GNP	Durable Goods	Non-durable Goods	Services	Total	Government Purchases	Domestic Investment	Net Exports
	(Billions of current dollars)							
1977	1,918.3	178.2	478.8	547.3	1,204.4	353.8	324.1	-4.0
1978	2,163.9	200.2	528.2	618.0	1,346.5	431.9	386.6	-1.1
1979	2,417.8	213.4	600.0	693.7	1,507.2	474.4	423.0	13.2
1980	2,631.7	214.7	668.8	784.5	1,668.1	537.8	401.9	23.9
1981	2,954.1	236.1	733.9	887.1	1,857.2	595.7	474.9	26.3
1982	3,073.0	244.5	761.0	986.4	1,991.9	649.2	414.5	17.4
1983	3,310.5	279.4	804.1	1,074.5	2,158.0	689.5	471.9	-9.0
	(Billions of constant 1972 dollars)							
1977	1,369.7	138.0	333.4	393.0	864.3	269.2	214.2	22.0
1978	1,438.6	146.8	344.4	412.0	903.2	274.6	236.7	24.0
1979	1,479.4	147.2	353.1	427.3	927.6	278.3	236.3	37.2
1980	1,475.0	137.5	355.6	438.8	931.8	284.3	208.5	50.3
1981	1,513.8	141.2	362.5	453.1	956.8	286.5	227.6	43.0
1982	1,485.4	139.8	364.2	466.2	970.2	291.8	194.5	28.9
1983	1,535.3	156.3	376.1	479.0	1,011.4	293.1	219.0	11.8

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

Gross National Product

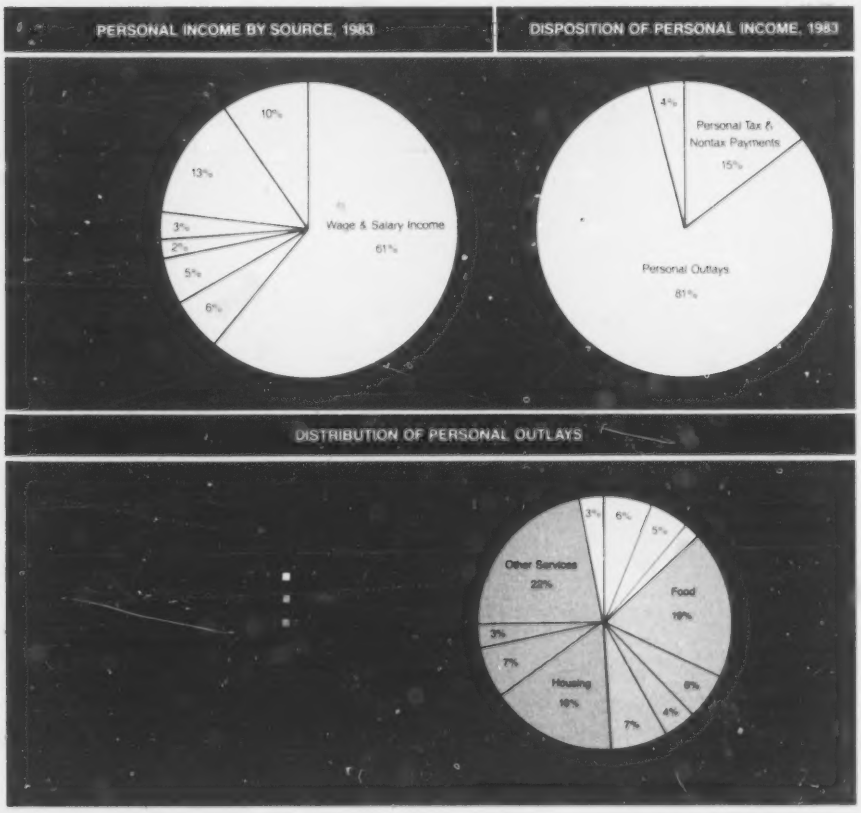
The gross national product, defined as the value of goods and services produced, was $3,310.5 billion in 1983, up 7.7% from the previous year (Table 10). Of the total national product, personal consumption expenditures amounted to $2,158.0 billion (65.2%), government purchases $689.5 billion (20.8%), gross private domestic investment $471.9 billion (14.3%), and net foreign trade of $9 billion in imports (−0.2%). Constant (1972) dollar values are also shown in Table 10.

Total personal income and its disposition are detailed in Table 11. Personal income is usually disposed of in three general ways. One portion automatically goes for taxes; in 1983 this portion was 14.8% ($406.5 billion). A large part is spent out-of-pocket for consumption and other purposes, the whole of which is known as personal outlays. The remainder is saved in various forms.

Personal Outlays

Personal outlays (defined by the Department of Commerce as including personal consumption expenditures, interest payments by individuals and transfers abroad by individuals) rose nearly proportionately with disposable personal income during the 1960's. During recessions or pauses in business growth when durable goods spending is greatly reduced, consumer outlays tend to drop off as a percent of disposable income and increase again during strong recovery periods. Personal outlays as a portion of disposable personal

CHART 13



income since 1970 have varied between 91.4% (1973, 1975) and 95.1%, a high reached just this year (1983).

Personal Consumption

In 1983, personal consumption expenditures of $2,158.0 billion in current dollars were 8.3% above the level of 1982. This healthy growth evidences the effects of the first full year of recovery. Of this total, expenditures for durable goods were up a very healthy 14.3% and for nondurables 5.7%. Expenditures for services rose more slowly than in any of the previous six years at 8.9%. Personal consumption expenditures in real terms (1972 dollars) increased 4.2% from 1982, after rising only 1.4% during that year. Auto sales, reflecting a major component of consumption of durables rose by about 9.2 million units in 1983, up 15% from 1982. Sales of imports rose 7.4% from 2.2 million to 2.4 million, while domestic unit sales increased 18% to 6.8 million. (Sales of domestic cars increased as a portion of total sales from 72% in 1982 to 74% in 1983.)

Personal Saving

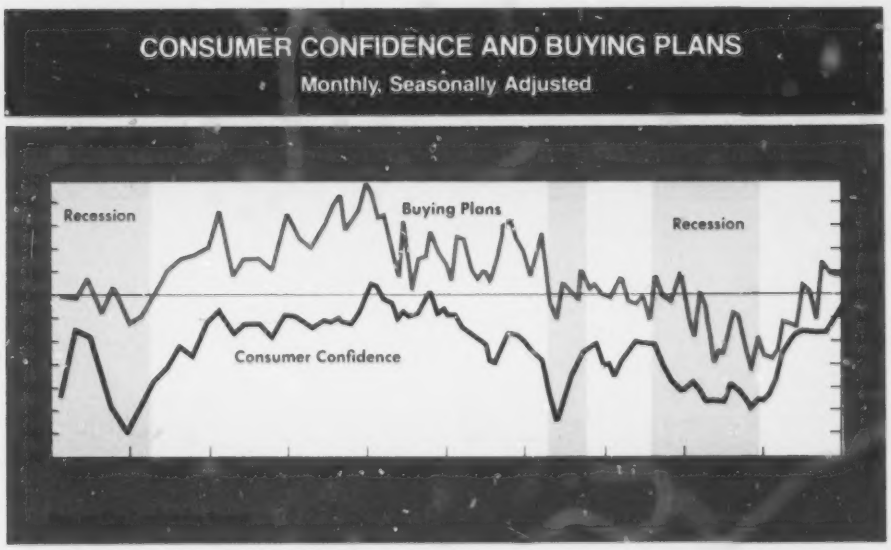
Individuals saved a total of $113.6 billion in 1983, less in absolute terms than the $125.4 billion saved in 1982. Since 1970, the personal saving rate (saving as a percent of disposable personal income) has varied between 8.6% (1973) and its lowest measure since, 4.9% in 1983.

Percent distributions for the sources and disposition of personal income are shown in Chart 13.

Measuring Consumer Behavior

Awareness of the complexities as well as the significant economic role of personal income and consumers' spending and saving decisions has given rise to the development of indicators designed to measure more precisely various characteristics of the consumer sector. With the constant refinement of such indicators, there is a broader understanding of changing consumer attitudes toward goods, services, credit, financial security, and changing family needs and values.

CHART 14

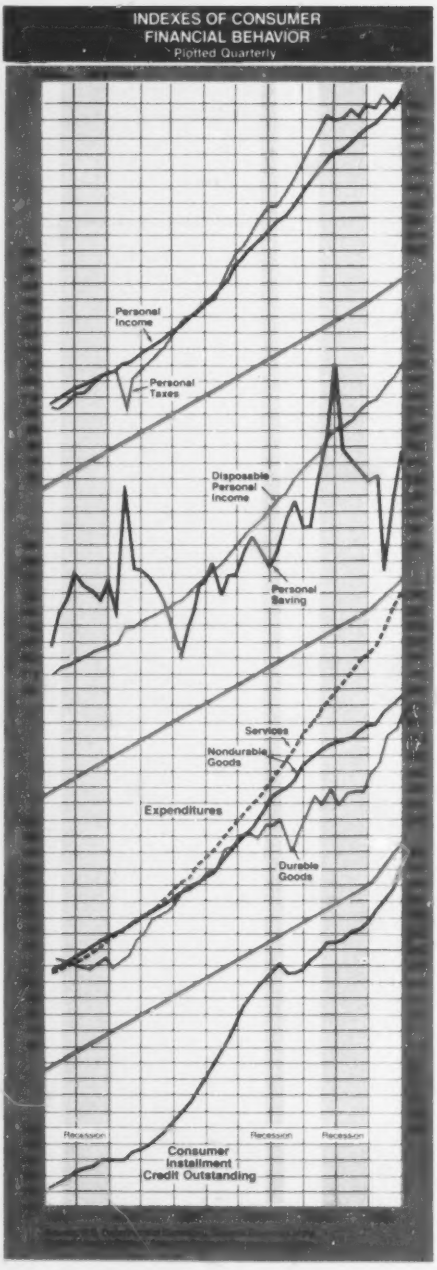


The Conference Board, at monthly intervals, reports consumer attitudes and buying plans based on surveys conducted by National Family Opinion, Inc. The results of these surveys are summarized in two indexes — the Index of Buying Plans and the Index of Consumer Confidence. Both of these indexes appear to have declined prior to previous downturns in the business cycle (Chart 14), and therefore may be useful in loosely predicting the future course of the economy. At 108.9% of its 1969 level, the Index of Buying Plans in December 1983 was well above the average for the year of 95.1% and up significantly from its level in December 1982. The Index of Consumer Confidence rose over the year, ending at 95.1% (also 1969 = 100), having registered at only 58.0% in January. The average for the year was 81.3%.

Indexes of Consumer Financial Behavior, developed by the American Financial Services Association, highlight recent trends in consumer income and its uses and thus assist in the task of projecting the effects of such trends in the overall economy (Chart 15).

The indexes reveal personal income at 298% of its 1972 level in the last quarter of 1983, personal taxes at 292%, disposable income at 299% and personal saving at a more modest 247%. The indexes for consumer expenditures were: durables, 268%; nondurables, 274%; and services, 340%. The Federal Reserve Board series on consumer installment credit extended and liquidated have been discontinued, but the index for consumer installment credit outstanding in the fourth quarter reached 311%.

CHART 15



Consumers as Capitalists

To the extent that they provide a large portion of the funds borrowed by commercial enterprises (through their saving and investment), consumers have become capitalists in the economic sense. In addition to their ownership of the means of production in the form of corporate stocks and bonds, they generally own the physical capital which satisfies their own needs

for living quarters, transportation, household services and the like. (The most recent data on home ownership are for 1982, when almost 65% of all households owned the unit in which they lived.)

Capital Formation

Capital formation (in physical terms) may be defined as the addition of property and goods that promote the production of other goods and services during a time period to the existing stock of such property and goods. In this sense, owner-occupied houses and consumer durables purchased by consumers during a year are similar in nature to investment by businesses. Net capital formation in 1983 was approximately $142.8 billion (Table 12). Net capital formation by business approximated $64.7 billion and by consumers $78.1 billion — $29.1 billion for housing and $49.0 billion for other durables.

TABLE 11

PERSONAL INCOME AND ITS DISPOSITION, 1983

(In billions of dollars)

TOTAL PERSONAL INCOME	$2,742.1
Wages and Salary	1,664.6
Other Labor Income	173.4
Proprietors' Income	128.5
Rental Income	54.8
Dividend Income	70.5
Interest Income	366.3
Net Transfer Payments	284.1
DISPOSITION OF PERSONAL INCOME	
Personal Tax & Nontax Payments	406.5
Personal Outlays	2,222.0
Personal Consumption Expenditures	2,158.0
Durable Goods	279.4
Autos & Parts	133.4
Furniture, Household Goods	102.2
Other Durables	43.9
Nondurable Goods	804.1
Food	422.1
Clothing & Shoes	125.6
Gas & Oil	90.8
Other Nondurables	165.7
Services	1,074.5
Housing	363.6
Household operation	154.1
Transportation	72.5
Other Services	484.3
Interest paid to business	62.7
Personal transfer payments abroad	1.1
Personal Saving	113.6

Source: Department of Commerce.

In order to purchase consumer capital items (homes, automobiles, television sets, refrigerators and other consumer durables which require a high initial outlay), consumers often borrow or "finance" them in order to pay over time as they "consume" the services produced by the item. Thus, just as a corporation sells debentures to finance goods-producing machines and just as the local school district may float a bond issue to build a school, in a similar way consumers borrow on credit to finance the purchase of capital goods. When financing in this manner, the corporation commits part of its future earnings to repayment of the debentures, the school district commits part of its future tax receipts to repayment of the bond issue, the consumer commits part of his or her future income to repayment of a mortgage (when financing a home) or to repayment of installment credit (when borrowing for other purposes). The financial markets provide the mechanism for collecting savings, which provide the funds to be lent in financing such investment.

CHAPTER 5

CONSUMERS AS FINANCERS

By virtue of the widely distributed discretionary spending power of consumers in the United States, this group, through its spending, saving and investing decisions, plays a significant role in determining the course and level of future economic activity in this country.

Financing Government

In 1983, individuals were taxed and made payments to social insurance funds as required by law at a rate of 21.4% of their earnings from current activity, (i.e. personal income minus transfer payments received plus payments to social insurance funds). This is significantly less than the 22.2% rate paid in 1982 (Table 13). Taxes paid by individuals in 1983 of $406.4 billion in nominal dollars were 10 percent more than taxes paid in 1982. This increase is nominal only, however, as the final stage of the Reagan tax cuts has caused a drop in the percent of current earnings paid in taxes from 17.4 percent to 16.5 percent. Individuals' payments to social insurance funds increased from $112.0 billion in 1982 to $119.5 billion in 1983, a 6.7 percent increase.

Saving and Investment

Useful in determining the role played in saving and investment by various segments of the economy is the Flow-of-Funds series published by the Federal Reserve Board. This series defines savings as the "excess of current receipts over current expenditures by each sector." By this definition, gross saving by the household sector in 1983 is preliminarily estimated at $516.7 billion, 8.0% above 1982 (Table 14). Net saving was $220.2 billion in 1983, up 4.8% from 1981, as personal saving decreased by $10.7 billion, credits from government insurance increased by $5.9 billion, net durables in consumption increased by $13.7 billion, and capital gains dividends increased by $1 billion.

Investment is defined as the "sum of net purchases of tangible assets (expenditures for both newly produced and previously existing tangible assets, less sales of tangible assets) and net acquisitions of financial assets less net increases in liabilities." By this definition, gross investment of households in 1983 is preliminarily estimated at $570.9 billion, of which $397.3 billion was capital expenditures for homes, durables, etc. (up 19.5% from 1982). Net financial investment was $173.6 billion, down 28.5%. Net acquisition of financial assets by households amounted to $361.4 billion in 1983, up 7.7% in the year, and their net increase in liabilities was $187.8 billion.

"Households," as the term is used in the Flow-of-Funds series, includes households and nonprofit organizations serving individuals such as foundations, private schools and hospitals, labor unions, and charitable, welfare and religious organizations.

Credit Market Debt Outstanding

It is a rare coincidence that the demand for expensive items, especially capital goods, can be financed from cash savings held by the purchaser, whether it is a government, a business or a household that requires use of the item. Just as business uses commercial credit or issues bonds to finance the purchase of capital goods, so consumers finance the purchase of tangible assets, homes and consumer durable goods through home mortgages and various other forms of consumer credit. As consumers chose to own more and more tangible assets, rather than pay others to supply the services provided by these assets over time, the level of total consumer debt increased faster than other debt during the 1950's. During late 1960's and early 1970's the debt of private business generally rose much faster than that of consumers or government. In 1983, consumer debt rose by 10.3% over its 1982

TABLE 12

CAPITAL FORMATION, 1979-1983

(In billions of dollars, seasonally adjusted annual rates)

	1979	1980	1981	1982	1983
Gross Capital Formation	636.4	616.6	710.8	659.0	750.0
Business (Gross domestic investment minus household purchases of residences and condominiums)	331.9	326.7	398.0	355.5	384.7
Consumer	304.5	289.9	312.8	303.5	365.3
Housing (Household purchases of residence and condominiums)	91.1	75.2	76.7	59.0	86.2
Durables	213.4	214.7	236.1	244.5	279.1
Capital Consumption Allowances	416.9	475.2	525.9	568.4	607.2
Business (Capital consumption minus owned occupied homes)	216.9	249.1	281.2	308.3	320.0
Consumer	200.0	226.1	244.7	260.1	287.2
Housing	39.1	44.1	48.3	50.9	57.1
Durables	160.9	182.0	196.4	209.2	230.1
Net Capital Formation	219.5	141.4	184.9	90.6	142.8
Business	115.0	77.6	116.8	47.2	64.7
Consumer	104.5	63.8	68.1	43.4	78.1
Housing.....	52.0	31.1	28.4	8.1	28.1
Durables	52.5	32.7	39.7	35.3	49.0

Source: Federal Reserve Flow of Funds Accounts Series.
Note: Parts may not add to totals due to rounding.

level, according to Flow-of-Funds data, with corresponding increases of 7.0% and 16.6% for business and government debt respectively (Table 15). Consumer debt thus comprised 27.2% of total public and private debt outstanding.

Consumers' Assets and Liabilities

The total assets of consumers were estimated at $13 trillion as of December 31, 1983, according to the Federal Reserve's Flow-of-Funds Household Sector Balance Sheet for the year (Chart 16 and Table 16). At the same time, consumers had liabilities of almost $2 trillion, leaving net worth of approximately $11 trillion.

Financial assets were estimated at $8 trillion. Tangible assets included $2 trillion in the value of owner-occupied housing, about $1 trillion in the land on which this housing stood and a further $1 trillion in the value of durable goods for a total of almost $5 trillion.

Current liabilities stood at $724 billion and fixed liabilities of mortgage debt at $1,200 billion, bringing total liabilities to $1,923 billion.

TABLE 13

FINANCING OF GOVERNMENT BY INDIVIDUALS 1978-1983

(In billions of dollars except as indicated by percent)

	1978	1979	1980	1981	1982	1983
Federal Government Receipts	431.6	493.6	540.9	627.0	617.4	644.7
State and Local Government Receipts*	250.3	271.5	297.4	330.2	355.2	397.0
Total Government Receipts	681.9	765.1	838.3	957.2	972.5	1,041.7
Received from individuals:						
In billions of dollars	328.1	382.1	425.1	491.9	514.1	525.9
Percent of total	48.1%	50.0%	50.7%	51.4%	52.9%	50.5%
Total Tax and Nontax Receipts of All Governments	520.0	578.2	634.6	720.2	719.6	769.4
Received from individuals:						
In billions of dollars	258.5	301.0	336.5	387.4	402.1	406.4
Percent of total	49.7%	52.1%	53.0%	53.8%	55.9%	52.8%
Total Social Insurance Fund Contributions	161.9	186.9	203.7	237.0	253.0	272.3
Received from individuals:						
In billions of dollars	69.6	81.1	88.7	104.6	112.0	119.5
Percent of total	43.0%	43.4%	43.5%	44.1%	44.3%	43.9%
Income of Persons from Current Earnings (Personal Income Minus Transfer Payments Plus Payments to Social Insurance Funds)	1,578.7	1,782.0	1,956.4	2,202.3	2,316.1	2,458.0
Percent paid to government for:						
Taxes, etc.	16.4%	16.9%	17.2%	17.6%	17.4%	16.5%
Social insurance funds	4.4%	4.6%	4.5%	4.7%	4.8%	4.9%

Source: Department of Commerce.

Note: Parts may not add to totals due to rounding.

* Less Federal grants-in-aid.

TABLE 14

SAVING AND INVESTMENT BY HOUSEHOLDS, 1977-1983

(In billions of dollars, seasonally adjusted annual rates)

	1977	1978	1979	1980	1981	1982	1983
Gross saving	312.8	357.2	380.9	413.2	471.2	478.6	516.7
Net saving	150.8	174.7	174.5	180.0	218.7	210.2	220.2
Personal saving	78.0	89.4	96.7	110.2	135.3	125.4	114.7
Credit from government insurance	22.5	27.9	24.4	35.3	41.0	47.2	53.1
Capital gains dividends	0.6	0.7	0.9	1.8	2.7	2.4	3.4
Net durables in consumption .	49.6	56.7	52.5	32.8	39.7	35.3	49.0
Capital consumption	162.0	182.5	206.4	233.2	252.5	268.4	296.5
Gross investment	331.8	378.3	409.1	469.8	539.7	575.3	570.9
Capital expenditures (homes, durables, etc.)	265.9	306.1	331.6	320.0	342.5	332.4	397.3
Net financial investment	65.9	72.2	77.5	149.8	197.2	242.9	173.6
Net acquisition of financial assets	206.5	245.5	257.9	277.4	320.6	335.6	361.4
Net increase in liabilities ..	-140.6	-173.2	-180.4	-127.5	-123.4	-92.7	-187.8
Discrepancy (saving - investment)	-19.0	-21.1	-28.2	-56.6	-68.5	-96.7	-54.2

Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.

TABLE 15

CREDIT MARKET DEBT OWED BY SECTOR, AND OTHER SELECTED CLAIMS AT YEAR-END, 1978-1983

(In billions of dollars)

CREDIT MARKET DEBT OWED BY:	1978	1979	1980	1981	1982	1983
PUBLIC SECTOR.....	1,100.1	1,217.0	1,371.3	1,527.8	1,804.6	2,103.5
U.S. Government and Agencies	626.2	663.6	742.8	830.1	991.4	1,177.9
U.S. Government Sponsored Credit Agencies and Mortgage Pools	182.6	231.8	276.6	324.0	388.9	457.0
State and local	291.3	321.6	351.9	373.7	424.3	468.6
PRIVATE FINANCIAL AND NON-FINANCIAL SECTORS.....	1,563.7	1,770.1	1,947.4	2,175.7	2,278.3	2,438.5
Corporate and foreign bonds	435.5	464.5	499.0	525.8	553.6	589.1
Mortgages	402.2	446.0	484.2	517.5	541.2	604.8
Other debt	726.0	859.6	964.2	1,132.4	1,183.5	1,244.6
CONSUMER SECTOR.....	1,097.8	1,264.9	1,366.4	1,471.3	1,540.4	1,698.3
Home mortgages	759.9	881.5	978.2	1,058.9	1,109.7	1,213.5
Consumer credit	337.9	383.4	388.2	412.4	430.7	484.8
Total Credit Market Debt...	3,761.6	4,252.0	4,685.1	5,174.8	5,623.3	6,240.3
OTHER SELECTED CLAIMS						
Security Credit	44.6	46.7	59.2	60.1	66.6	91.0
Trade Credit	332.1	393.5	441.8	475.5	463.4	520.9
Investment Company Shares .	45.8	51.2	63.5	63.8	89.5	129.4
Other Corporate Equities ..	982.5	1,179.5	1,572.1	1,504.7	1,720.7	2,021.4

Source: Federal Reserve Board Flow of Funds Series.

Note: Parts may not add to totals due to rounding.

TABLE 16

BALANCE SHEET OF THE HOUSEHOLD SECTOR* 1979-1983

(End of period in billions of dollars)

	1979	1980	1981	1982	1983
ASSETS					
1. Financial Assets (Subtotal).....	5,541.0	6,456.5	6,924.7	7,528.9	8,276.8
a. Demand Deposits and Currency	250.4	258.6	284.3	307.3	338.7
b. Time and Savings Accounts.....	1,163.7	1,289.2	1,355.5	1,468.8	1,673.7
c. Money Market Fund Shares	45.2	74.4	181.9	206.6	162.6
d. Life Insurance and Pension Fund Reserves.....	809.7	949.6	1,028.9	1,179.4	1,368.2
e. Government Securities.....	347.9	387.2	446.1	506.0	584.9
f. Corporate and Foreign Bonds	81.6	82.2	73.5	64.5	58.6
g. Corporate Stock at Market Value .	915.2	1,221.9	1,162.7	1,322.3	1,519.5
h. Equity in Noncorporate Business .	1,679.7	1,916.1	2,085.9	2,144.5	2,234.4
i. Other Financial Assets (net)	247.6	277.3	305.9	329.5	336.2
2. Tangible Assets 1/ (Subtotal).....	3,580.5	4,029.2	4,450.6	4,533.0	4,812.4
a. Owner-occupied Housing	1,729.0	1,904.2	2,070.9	2,094.5	2,202.6
b. Land 2/.....	732.5	880.0	1,036.7	1,048.5	1,156.4
c. Consumer Durable Goods	882.7	980.4	1,056.0	1,096.7	1,151.0
d. Other Tangible Assets 3/.....	263.3	264.6	287.0	293.3	302.4
3. TOTAL ASSETS.....	9,121.5	10,485.8	11,375.3	12,061.9	13,089.2
4. TOTAL LIABILITIES.....	1,396.2	1,526.1	1,654.3	1,740.9	1,923.0
a. Home Mortgages	869.2	967.5	1,051.1	1,101.0	1,199.5
b. Consumer Credit	383.4	388.2	412.4	430.7	484.8
c. Bank Loans, Insurance Loans, etc.	143.6	170.4	190.8	209.2	238.7
5. NET WORTH (Line 3 minus Line 4)...	7,725.3	8,959.6	9,721.0	10,320.9	11,166.2

Source: Federal Reserve Board.

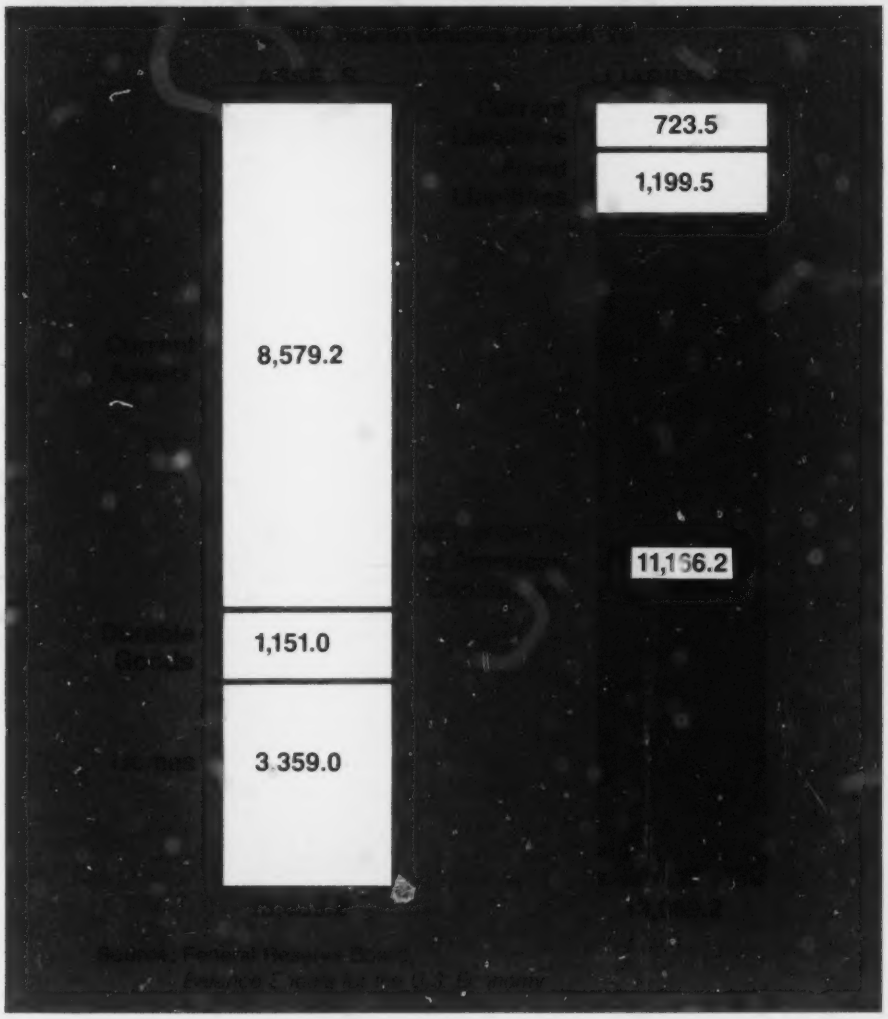
Note: Parts may not add to totals due to rounding.

* Includes households, personal trusts and non-profit organizations.

1/ Tangible Assets at current cost.
2/ The estimated value of land of the "owner-occupied housing."
3/ Primarily of non-profit organizations.
* Includes households, personal trusts and non-profit organizations.

CHART 16

ASSETS AND LIABILITIES OF THE HOUSEHOLD SECTOR DECEMBER 31, 1983



Consumers' net worth in 1983 of about $11 trillion was 8.2% more than in 1982. Various asset to debt ratios for the household sector are shown in Table 17.

TABLE 17

CONSUMERS' ASSET TO DEBT RATIOS, END OF PERIOD, 1979-1983

	1979	1980	1981	1982	1983
Ratio of:					
Assets to debts excluding home ownership	12.6	13.8	13.7	13.9	13.4
Home ownership to mortgage debt	2.9	2.9	3.0	2.9	2.8
All assets to all debts	6.6	6.9	6.9	7.0	6.8
Percent of owners' equity in all assets	84.7%	85.5%	85.5%	85.6%	85.3%

Source: Table 15.

CHAPTER 6

CONSUMER CREDIT

Approximately 71% of households' indebtedness is in the form of home mortgages (Chart 17). About 23% is in the form of installment consumer credit, defined by the Federal Reserve as "most short- and intermediate-term credit extended to individuals through regular business channels, usually to finance the purchase of consumer goods and services or to refinance debts incurred for such purposes, and scheduled to be repaid (or with the option of repaying) in two or more installments." About 6% of consumer debt is noninstallment consumer credit, that is, 30 day charge credit held by retailers, travel and entertainment companies, and businesses, and single-payment loans at commercial banks for consumer purposes.

Noninstallment Credit

The major categories of noninstallment consumer credit, which is generally of a convenience nature, are single payment loans negotiated at a commercial bank, retailers' charge accounts with balances paid in 30 days or less, and service credit which represents debts payable to hospitals, physicians, dentists, etc. At the end of 1983 noninstallment credit amounted to $97 billion, up from $86 billion at the end of 1982.

Consumer Installment Credit

At year-end 1983, consumer installment credit totaled $396.1 billion, according to the Federal Reserve Board's Mortgage and Consumer Finance section, up $40.3 billion from 1982. During the 1970's, the increases varied between $4.8 billion in 1970 and $43 billion in 1978. The increase in 1982 was $20.1 billion (Table 18).

Of the $396.1 billion in consumer installment credit outstanding at the end of 1983, 43% was held by commercial banks, 26% by finance companies, 13.5% by credit unions, 9% by retailers, 5.5% by savings and loan associations, 1% by gasoline companies, and 1.5% by mutual savings banks.

By type of credit, $142 billion, or about 36% of installment credit outstanding at the end of 1983, was for the purchase of automobiles (Table 18). Generally with such credit, the automobile serves as security for installment contracts which are written by dealers and sold to banks or finance companies, or as security for auto loans made directly to consumers by banks and credit unions. Predominant in financing these purchases were the commercial banks, with almost $68 billion outstanding. Finance companies held $49 billion, most of which consisted of contracts purchased by the subsidiaries of manufacturers, i.e. by General Motors Acceptance Corporation (GMAC), Ford Motor Credit and Chrysler Financial Corporation. Credit unions held $25 billion in loans made for the purchase of automobiles.

Revolving credit outstanding amounted to $80.8 billion at the end of 1983 (20%

of the total). Commercial banks held $44 billion, retailers $33 billion and gasoline companies $4 billion.

Mobile home financing totaled a revised $24 billion at year-end 1983 (6% of the total). Of this, commercial banks held $10 billion, finance companies $9 billion, and other institutions $4.5 billion.

All other types of consumer installment financing amounted to $149 billion and comprised almost 38% of the total outstanding at the end of 1983. Commercial banks held $50 billion, finance companies $27 billion, and credit unions also $27 billion. Retailers (including the wholly owned finance subsidiaries of chain stores) held $3 billion, savings and loan associations almost $18 billion, and mutual savings banks $6 billion. This "other" category includes installment contract financing of household goods such as appliances and furniture, as well as all personal loans. Table 19 shows in detail these outstandings at year-end 1982, as well as the net change in outstandings during the year (Federal Reserve data on extensions and liquidations have been discontinued by the Board).

Rates of Charge

Annual interest rates charged by finance companies on purchased retail automobile paper in November 1983 averaged 13.50% for new cars (up from 12.82% in November 1982) and 18.16% for used cars (down from 20.68% in November 1982). Though no comparable figures are avail-

CHART 17

TYPES OF CONSUMER INDEBTEDNESS OUTSTANDING, YEAR-END 1983

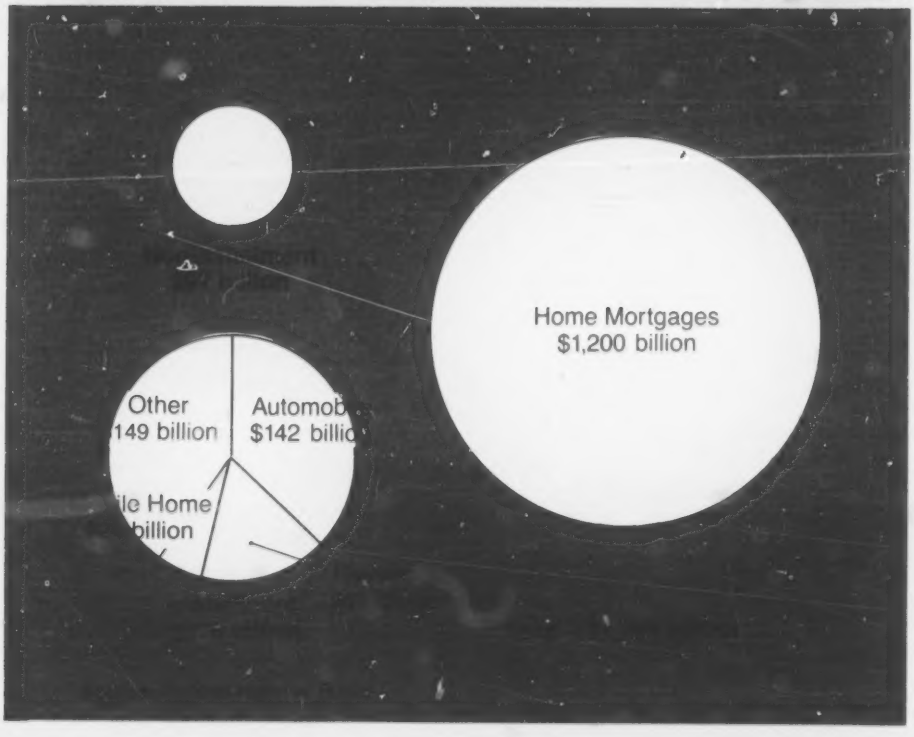


TABLE 18

CONSUMER INSTALLMENT CREDIT OUTSTANDING AT YEAR-END AND NET CHANGE DURING YEAR, BY TYPE, BY HOLDER 1978-1983

(In billions of dollars)

	1978	1979	1980	1981	1982	1983
OUTSTANDING AT YEAR END - TOTAL	273.6	312.0	314.9	335.7	355.8	396.1
Automobile	101.6	116.4	116.8	125.3	131.1	142.4
Commercial Banks	60.5	67.4	61.5	58.1	59.6	67.6
Credit Unions	21.2	22.2	21.1	22.0	22.6	25.6
Finance Companies	19.9	26.8	34.2	45.3	48.9	49.3
Revolving	48.3	56.9	58.5	64.5	70.0	80.8
Commercial Banks	24.3	29.9	29.8	32.9	36.7	44.2
Retailers	20.7	23.3	24.3	27.2	29.3	32.5
Gasoline Companies	3.2	3.7	4.5	4.4	4.1	4.1
Mobile Home	15.2	16.8	17.3	18.0	22.3	23.7
Commercial Banks	9.5	10.6	10.4	10.2	9.6	9.8
Finance Companies	3.2	3.4	3.7	4.5	9.0	9.4
Savings and Loans	2.1	2.3	2.7	2.8	3.1	3.9
Credit Unions	0.5	0.5	0.5	0.5	0.5	0.6
Other	108.5	121.9	122.3	127.9	132.5	149.1
Commercial Banks	41.6	46.3	45.3	46.5	46.7	50.4
Finance Companies	31.2	38.2	38.8	40.0	40.8	44.2
Credit Unions	22.7	23.8	22.5	23.5	24.2	27.3
Retailers	5.2	4.8	4.4	4.1	3.5	3.4
Savings and Loans	5.0	6.1	7.2	9.6	12.7	17.7
Mutual Savings Banks	2.7	2.7	4.0	4.1	4.8	6.1
NET CHANGE DURING YEAR - TOTAL	43.1	38.4	2.9	20.8	20.1	40.3
Automobile	18.7	14.7	0.4	8.5	5.8	11.3
Commercial Banks	10.9	6.9	(-)5.9	(-)3.5	1.5	8.0
Credit Unions	3.1	1.0	(-)1.1	0.9	0.6	3.0
Finance Companies	4.7	6.8	7.4	11.1	3.6	0.4
Revolving	9.0	8.6	1.6	6.0	5.5	10.8
Commercial Banks	6.0	5.5	(-)0.1	3.1	3.8	7.5
Retailers	2.8	2.6	1.0	2.9	2.1	3.2
Gasoline Companies	0.3	0.5	0.8	(-)0.1	(-)0.3	—
Mobile Home	0.4	1.6	0.5	0.7	4.3	1.4
Commercial Banks	0.4	1.1	(-)0.2	(-)0.2	(-)0.6	0.2
Finance Companies	0.1	0.2	0.3	0.8	4.5	0.4
Savings and Loans	(-)0.3	0.2	0.4	0.1	0.3	0.8
Credit Unions	0.1	—	—	—	—	0.1
Other	15.0	13.4	0.3	5.7	4.6	16.6
Commercial Banks	6.3	4.7	(-)1.0	1.2	0.2	3.7
Finance Companies	4.7	7.0	0.6	1.2	0.8	3.4
Credit Unions	3.6	1.1	(-)1.3	1.0	0.6	3.1
Retailers	(-)0.3	(-)0.4	(-)0.4	(-)0.3	(-)0.6	-0.1
Savings and Loans	0.3	1.1	1.1	2.4	3.1	5.0
Mutual Savings Banks	0.5	—	1.3	0.1	0.7	1.3

Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.

able for commercial banks their rates on purchased paper were probably about the same as those of finance companies. The most frequent rate charged on direct loans by banks to consumers to finance new automobiles over a 24 month period in the first week of November 1983 was 16.39%.

It is probable that rates charged by retailers, including the wholly owned finance subsidiaries of chain stores, were about the same where permitted by law. Most of the financing by retailers was, however, in the form of revolving credit at rates probably approximating the rate on bank credit cards which averaged

TABLE 19

CONSUMER INSTALLMENT CREDIT, BY TYPE AND HOLDER, 1983

(In millions of dollars)

	Outstanding Year-end 1982	Net Change 1983	Outstanding Year-end 1983
Total Installment Credit	355,849	40,233	396,082
Commercial Banks	152,490	19,488	171,978
Finance Companies	98,693	4,169	102,862
Credit Unions	47,253	6,218	53,471
Retailers	32,735	3,176	35,911
Savings and Loans	15,823	5,792	21,615
Gasoline Companies	4,063	68	4,131
Mutual Savings Banks	4,792	1,322	6,114
Automobile	131,086	11,363	142,449
Commercial Banks	59,555	8,002	67,557
Credit Unions	22,596	2,978	25,574
Finance Companies	48,935	383	49,318
Revolving	69,998	10,825	80,823
Commercial Banks	36,666	7,518	44,184
Retailers	29,269	3,239	32,508
Gasoline Companies	4,063	68	4,131
Mobile Homes	22,254	1,426	23,680
Commercial Banks	9,605	237	9,842
Finance Companies	9,003	362	9,365
Savings and Loans	3,143	763	3,906
Credit Unions	503	64	567
Other	132,511	16,619	149,130
Commercial Banks	46,664	3,731	50,395
Finance Companies	40,755	3,424	44,179
Credit Unions	24,154	3,176	27,330
Retailers	3,466	-63	3,403
Savings and Loans	12,680	5,029	17,709
Mutual Savings Banks	4,792	1,322	6,114

Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.

18.75% percent in November 1983, the same as in 1982.

Survey of Consumer Finances

Annual studies by the Survey Research Center of The University of Michigan provided detailed information on the characteristics of borrowers until the surveys were discontinued in 1971. In 1976, the Board of Governors of the Federal Reserve System authorized a detailed survey of consumers' views on credit. The interview questionnaire for this survey probed two significant aspects of consumer credit. First, it explored use by consumers of different types of credit, updating the *Surveys of Consumer Finances* undertaken by the Survey Research Center until 1971. Second, it measured consumers' awareness, understanding, attitudes and behavior regarding credit and its regulation, a largely unresearched area previously. Authored by Thomas A. Durkin and Gregory E. Elliehausen and published by the Federal Reserve Board as the *1977 Consumer Credit Survey*, the report examines lines of direct and indirect questioning used to gather information about the variables, as well as the responses obtained. Chapters 2 and 10 examine the responses to questions on consumer credit protection legislation. Chapters 11 to 21 review consumers' income, assets, debts, and housing; they also update many of the tables from the earlier *Surveys of Consumer Finances*. A new survey in 1983 updated many of these tables and provided additional detail on households' asset holdings. A volume incorporating these new data is expected from the Federal Reserve in late 1984.

TABLE 20

ANNUAL INSTALLMENT DEBT PAYMENTS AS A PERCENT OF PREVIOUS YEAR'S FAMILY INCOME*

		Annual Installment Debt Payments (Percent of family income)				
	No Debt	Less than 10 %	10 % to 19 %	20 % to 39 %	40 % and more	Not Ascertained
All Families	46.5	26.7	15.6	6.2	1.0	3.8
Age of Family Head (years)						
Under 25	34.9	16.4	25.2	13.5	3.4	6.3
25-34	31.1	36.0	21.4	7.6	1.0	3.1
35-44	32.4	37.8	16.9	6.0	1.3	5.5
45-54	42.0	30.7	14.6	6.4	0.8	5.2
55-64	55.6	24.0	11.9	5.1	0.6	2.8
65-74	82.2	7.0	6.6	1.7	0.8	1.7
75 and over	94.9	1.6	1.6	0.8	—	0.8
Family Income (dollars)						
Less than 3,000	79.7	4.5	1.3	3.8	5.1	5.6
3,000-4,999	69.2	7.1	7.6	9.2	4.3	2.7
5,000-7,499	59.0	13.1	13.5	10.8	1.4	2.3
7,500-9,999	44.3	21.0	20.1	8.2	1.4	5.1
10,000-14,999	41.9	22.2	23.8	8.7	0.4	2.9
15,000-19,999	34.2	34.8	22.8	4.7	—	3.5
20,000-24,999	31.7	42.4	16.4	4.6	—	5.0
25,000 and more	41.7	43.3	7.8	1.6	—	5.7

Source: Federal Reserve 1977 Consumer Credit Survey, Table 19-4.
Note: Parts may not add to totals due to rounding.
* Ratio of August or September 1977 payments to 1976 monthly income, excluding home mortgages and credit cards.

Incidence of Consumer Credit Usage

The Federal Reserve Board survey conducted in 1977 revealed that 46.5% of all families owed no consumer installment debt. Over one-quarter of all families (26.7%) had installment debt payments (excluding home mortgages and credit cards) of less than 10% of family income; 15.6% had payments of 10-19%, and 7.2% of 20% or more (Table 20).

The Federal Reserve Board study shows the level of commitment for debt repayment by age groups of the family head. For example, 42.1% of the families where the family head was under 25 had 10% or more of their disposable income committed to repayment of installment credit. This percentage dropped to 30% for the 25 to 34 year age group, 24.2% for the 35 to 44, 21.8% for the 45 to 54 year, and 17.6% for the 55 to 64 year age groups. By contrast, 9.1% of those in the 65 to 74 year age group, and 2.4% of those 75 years of age and over had 10% or more of their disposable income in 1977 committed to repayment of installment credit.

Repayments as a percent of disposable income vary also by income level of spending unit. For the low income levels (under $3,000 per year), 79.7% of households had no installment payments in mid-1977 and another 4.5% had payments of under 10% of disposable income. Among those having income of $25,000 and over, 41.7% had no installment payments and 43.3% had payments of less than 10% of disposable income. Families with incomes

TABLE 21

DISTRIBUTION OF FAMILIES REPORTING INSTALLMENT DEBT AND USE OF CREDIT CARDS, 1970 AND 1977

(Percent of families)

	With Installment Debt*		Using Credit Cards	
	1970	1977	1970	1977
All Families	49	53.5	50	59.8
Age of Family Head (years)				
Under 25	59	65.1	42	38.7
25-34	67	68.9	61	64.6
35-44	63	67.6	57	72.4
45-54	56	58.0	60	68.4
55-64	36	44.4	46	61.1
65-74	14	17.8	37	48.7
75 and over	6	5.1	20	33.5
Family Income (dollars)				
Less than 3,000	19	20.3	na	22.2
3,000-4,999	31	30.8	na	23.8
5,000-7,499	52	41.0	na	33.3
7,500-9,999	61	55.7	na	48.9
10,000-14,999	65	58.1	na	62.6
15,000-19,999	49**	65.8	na	72.8
20,000-24,999	na	68.3	na	82.1
25,000 and more	na	58.3	na	90.2

Source: Federal Reserve 1977 Consumer Credit Survey.

Note: Parts may not add to totals due to rounding.

* Excluding home mortgages and credit cards.
** $15,000 and more in 1970.

of $15,000 to $24,999 seem to have been the most likley to be credit users as shown by the fact that over 65% of these families owed some installment credit in 1977. Families committed to installment payments of 20% or more of income comprised the largest percentage in the $3,000 — $7,499 groups. Each of these income groupings would, of course, be different today as a result of inflation since 1977.

In 1977, 59.8% of all families made use of credit cards, compared to 50% of all families in 1970 (Table 21). All age groups had increased their use of credit cards, except the families headed by a person under 25 years of age (down from 42.0% to 38.7%).

Statistics on the extent of the use of real property as security for personal expenditures are not generally available. Some information on the use of funds obtained, the sources of funds, and the size of the second mortgage extensions is shown in Table 22.

Personal Bankruptcies

Personal bankruptcies are always a concern to credit grantors, members of the legal profession, legislators and social workers alike. The unprecedented rise in nonbusiness bankruptcies following the implementation of the new federal bankruptcy code on October 1, 1979 has given

TABLE 22

LOANS SECURED BY REAL ESTATE OTHER THAN FIRST MORTGAGES — NONFARM HOMEOWNING FAMILIES, 1977

(In percent of number responding)

Uses of Funds Borrowed	100.0
Downpayment	10.3
Appliances, durable goods	2.8
Additions or repairs to house	30.8
Automobiles	7.5
Other debts or expenses (bills, taxes, medical, educations and other)	39.3
Not ascertained	9.3
Sources of Funds	100.0
Bank	30.4
Savings and loan/savings bank	9.8
Individual	12.8
Government agency	2.9
Other (mostly finance companies)	26.5
Dealer contractor	3.9
Credit union	4.9
Not ascertained	8.8
Size of Second Mortgage Extension	100.0
$1,000 and less	1.6
$1,001-$2,500	7.8
$2,501-$5,000	25.0
More than $5,000	56.2
Not ascertained	9.4
Memorandum	
Percent of all U.S. families owning homes	64.5%
Percent of all U.S. homeowners with first mortgages	61.7%
Percent of all U.S. homeowners with loans secured by other than first mortgages	5.8%

Source: Federal Reserve 1977 Consumer Credit Survey.

rise to even greater c· acern about the effect of bankruptcy on the consumer credit markets in the future.

The "tentative" and small 1982 decrease in the number of personal bankruptcy filings reported in the *1983 Finance Facts Yearbook* has developed into a more significant 7.7% decline during 1983. Some of this improvement is undoubtedly due to the effects of the recovery, of course, but the 415,030 individuals declaring bankruptcy in 1983 is a figure well below the 449,895 declarations in 1982.

There are several factors influencing the number of personal bankruptcies, one of which is the number of individuals in financial distress. Others include the ability since 1979 of the debtor to retain more assets than permitted under the previous law, and other options which make the decision to declare personal bankruptcy less unattractive than it had been prior to enactment of the new law. Bankruptcy law has been subject in the past to differing interpretations in different districts, which situation has intensified with the introduction of the 1979 code. Thus, while the number of bankruptcies has at times in the past been used as a guide to the overuse of credit, recently it has become less reliable as such.

CHAPTER 7

THE CONSUMER FINANCE INDUSTRY

Definition

The consumer finance industry is defined to include those corporations, partnerships or proprietorships whose primary purpose is to provide credit to consumers. This financing is done through direct cash loans or through the purchase of installment sales paper from dealers or retailers when consumers buy automobiles or other goods for which they pay over time.

The institutions specializing in this business are generally known as consumer finance companies, sales finance companies, industrial banks and industrial loan companies. At the end of 1983, such companies held $102.9 billion in installment credit outstanding, including $35.5 billion in personal loans, $49.3 billion in automobile credit, $9.4 billion in mobile home credit, and $8.7 billion in credit to finance the purchase of other consumer goods and home improvements.

Many institutions are involved in credit financing for consumer purchases of goods and services. Commercial banks often provide consumer credit through two departments, one of which specializes in personal installment loans and another which is responsible for credit card operations. Most savings and loan associations and mutual savings banks offer some form of personal loan as an adjunct to their major role of financing homes, and credit unions have as one of their major functions the granting of loans to members. Each of these institutions also has a collateral role — that of accepting time and/or savings deposits as a major method of obtaining the funds to be lent. Retail outlets also make credit available to their customers as a convenience but do not take in deposits to fund directly this activity. Consumer finance companies are the only institution whose primary role is to make installment credit available to consumers. Accordingly, retailers as a group, and most depository financial intermediaries (including commercial banks, savings and loan associations, and credit unions), which have the dual functions of receiving funds from savers and lending to borrowers, are not included in the following discussion of the consumer finance industry. Finance company subsidiaries of bank, insurance, and other holding companies are included.

Industrial banking companies or Morris Plan companies (known variously as thrifts, industrial loan companies and other titles) which operate in 20 states, are permitted to, and some do, accept consumers' savings deposits in various forms (thrift certificates and investment certificates are two examples). Those industrials

which accept deposits or deposit-like instruments are, in a real sense, depository financial institutions although they are usually grouped with finance companies because their charters are most frequently held by subsidiaries of finance companies and they are in many cases regulated by a state's consumer credit administrator.

Size and Ownership

Finance companies vary in size and ownership from single office independently owned and operated companies to large chain companies with hundreds of offices across the country. Some medium-size and large companies are independently owned, others are subsidiaries of manufacturers, bank holding companies, insurance companies, or conglomerate firms. Alternatively, some companies in the industry have insurance and retail subsidiaries, some offer commercial financing in addition to consumer financing, some have manufacturing subsidiaries and some have subsidiaries which operate in Canada and overseas.

Long-Term Trends

Until well into the 1960's, finance companies were generally highly specialized and could be distinguished as consumer finance companies, sales finance companies or commercial finance companies. However, by the late 1970's, most large and medium-size, and many small finance companies had become more diversified, both as to lending (assets) and as to sources of funds (liabilities). During the 1970's, diversified giants from outside the industry recognized finance companies as well-managed profit centers and many were acquired by such conglomerates. Also, the passage of the Bank Holding Company Act amendments of 1970 provided the legal basis for bank holding companies to increase their acquisitions of finance companies.

Table 23 shows the trends in consumer and business financing by finance companies since 1977. At the end of 1983, consumer receivables constituted 52% of the $198.1 billion in receivables, while business credit in the amount of $95.2 billion constituted 48%.

TABLE 23

RECEIVABLES OUTSTANDING AT FINANCE COMPANIES, BY TYPE, SELECTED YEARS, 1978-1983

(In billions of dollars)

	1978	1979	1980	1981	1982	1983
Receivables Outstanding						
Total	117.6	138.6	149.0	170.4	179.6r	198.1
Consumer Credit - Total	54.3	68.3	76.8	89.8	98.7r	102.9
Automobile	19.9	26.8	34.2	45.3	48.9r	49.3
Mobile Home	3.2	3.4	3.7	4.5	9.0r	9.4
Personal Loans	24.8	30.6	31.6	33.3	33.9	35.5
Other	6.4	7.6	7.2	6.7	6.9r	8.7
Business Credit - Total	63.3	70.3	72.3	80.6	80.9	95.2
Automobile	27.3	29.1	24.6	24.5	24.6	36.3
Other than Automobile	36.1	41.3	47.7	56.1	56.3	58.9

Source: Federal Reserve Board
Note: Parts may not add to totals due to rounding.

During the first half of the 1970's, the percentage of total consumer installment credit held by finance companies declined from 26.1% at the end of 1970 to less than 20% in the late 1970's (1977, 1978). This declining trend was reversed in 1978 and finance companies' share of consumer credit continued upward until the end of 1982, when it reached 27.7% before falling slightly to 26.0% at year-end 1983. The reversal in the 1970's reflected the entry of finance companies into new mar-

TABLE 24

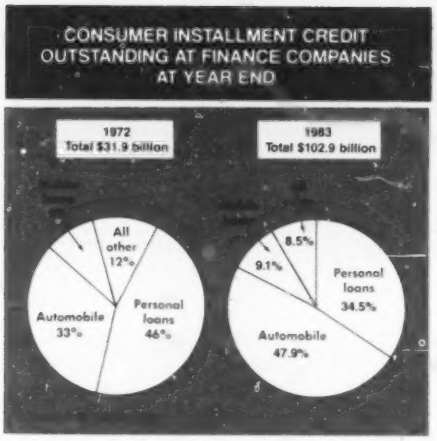
CONSUMER INSTALLMENT CREDIT AT FINANCE COMPANIES SELECTED YEARS, 1976-1983

(In millions of dollars)

	Total	Personal Loans	Automobile	Mobile Home	All Other
Outstanding (end of period)					
1976	38,919	18,537	12,848	3,263	4,271
1977	44,868	21,239	15,235	3,077	5,317
1978	54,298	24,780	19,937	3,152	6,429
1979	68,318	30,594	26,751	3,390	7,583
1980	76,756	31,573	34,242	3,745	7,196
1981	89,818	33,300	45,275	4,494	6,749
1982	98,693r	33,878	48,935r	9,003r	6,877r
1983	102,862	35,459	49,318	9,365	8,720
Extensions					
1976	36,129	19,766	11,169	702	4,492
1977	41,989	22,595	12,662	643	6,089
1978	50,505	25,880	16,473	886	7,266
1979	61,518	29,892	22,950	797	7,879
1980	60,801	27,188	27,051	898	5,664
1981	66,344	26,151	33,527	1,313	5,353
1982	61,665	23,234	32,385	1,383	4,663
1983	Series discontinued				
Liquidations					
1976	33,183	18,496	9,535	884	4,268
1977	36,041	19,893	10,275	832	5,041
1978	41,075	22,339	11,771	812	6,153
1979	47,498	24,078	16,136	559	6,725
1980	52,363	26,209	19,560	543	6,051
1981	53,282	24,424	22,494	564	5,800
1982	57,161	22,656	28,880	912	4,713
1983	Series discontined				
Net Change					
1976	2,946	1,270	1,634	- 182	224
1977	5,948	2,702	2,387	- 189	1,048
1978	9,430	3,541	4,702	74	1,112
1979	14,020	5,814	6,814	238	1,154
1980	8,438	979	7,491	355	- 387
1981	13,062	1,727	11,033	749	- 447
1982	8,875	578	3,660r	4,509r	128r
1983	4,169	1,581	383	362	1,843

Source: Federal Reserve Board and American Financial Services Association.
Note: Parts may not add to totals due to rounding.

CHART 18



kets (especially large loans secured by real property and, to a lesser extent, open-end credit) and greatly increased penetration in automobile credit during difficult economic times 1980-82 that led to bank and credit union retreats from the market. The 1983 decline in the market share of finance companies is at least partly explained by renewed interest by these institutions in auto credit markets during periods of economic expansion.

Types of Consumer Finance Business

At the end of 1983, the $102.9 billion in consumer installment credit held by finance companies consisted of $35.5 billion in personal loans (35%), $49.3 billion in retail automobile paper (48%), $9.4 billion in mobile homes (9%), and $8.7 billion in other forms of consumer installment credit (8%). (Table 24 and Chart 18.) The vast majority of finance companies now offer a diversity of these consumer credit services.

Although most finance companies and industrial banking companies now in operation had their early beginnings in the direct cash loan field, many others started in the retail sales financing business. Most have subsequently added the other services as a means of providing more complete service for existing customers or as a means of attracting new customers.

Financing of automobiles and other consumer durable goods, the specialty of the sales finance company, is frequently a marginal profit activity, nearly always requiring a large volume for success. Particularly in the financing of relatively small purchases, the total income from finance charges barely covers the cost of putting an account on the books, and is often inadequate to cover the cost of servicing over a period of months or years.

Revolving or open-end consumer credit business has been growing but is still not a major element for most finance companies, partially because of restrictive legislation. However, with the increasing use of electronic fund transfers, many companies are showing an interest in expanding this type of service.

Financing Automobiles and Other Goods

As automobile and other manufacturers expanded the operations of their finance company subsidiaries, and as retail chains established their own finance subsidiaries, the market for independent sales finance companies decreased. In addition, during the early 1970's, commercial banks and credit unions became increasingly aggressive in auto financing. After 1979, however, alternative, higher earning markets for commercial bank lending, and shortages of funds faced by credit unions once again lessened the participation of these institutions in auto financing. The resulting shift back to finance companies is evident in Federal Reserve statistics, which show that finance companies' share of total automobile credit outstanding rose from 29% in 1980 to 36% and 37% in 1981 and 1982, respectively. With continued economic recovery, however, commercial banks have become more prominent as holders of auto credit (as much a result of improved auto sales as of an effort to increase such lending). Finance companies' share has slipped slightly, to 34.6% at the end of 1983. In absolute terms, $49.3 billion in automobile installment credit was outstanding at finance companies at the end of 1983, up from

$48.9 billion at the end of 1982. Most of this amount was held by the subsidiaries of auto manufacturers, as most independent finance companies do a very limited amount of automobile financing and are in the direct cash loan field, or in many cases in commercial financing.

Financing the purchase of mobile homes is also a part of the operation of some finance companies, though a less substantial portion of their business than it was a few years ago. At the end of 1983 there were $9.4 billion in this type of receivable outstanding, up from $9.0 billion at the end of 1982.

The medium of a limited retail sales financing service has in the past provided the consumer finance company with an opportunity to attract new direct loan customers. Traditionally the customer (buyer) entered into a contract with a dealer (seller) to buy a refrigerator, for example. The dealer, in turn, discounted the paper with a finance company by assigning it (endorsing the contract) to the finance company. The buyer would make his monthly payments directly to the finance company under the same terms and conditions as those of his contract with the seller. In such a transaction, the finance company gained a customer to whom it could then also offer its direct loan services as the customer proved his or her credit-worthiness by the manner in which payments on the refrigerator were made. The customer established a credit relationship with the finance company which he could then draw on at a time when he or she needed cash credit. With the expanded use of revolving credit in the 1970's, finance companies retained part of this sales finance service through the use of credit cards or private label financing. Although there is no available measure of the amount of such revolving credit outstanding, it is included in the $8.7 billion of "other" consumer installment credit outstanding at finance companies at the end of 1983.

Personal Cash Loans

A large segment of finance company outstandings is in the form of personal loans, made for various purposes, some secured by real estate, personal property, or other collateral, others unsecured, including a small amount in open-end loans. Finance company outstandings of personal loans at the end of 1983 as reported by the Federal Reserve stood at $35.5 billion, up from $33.9 billion at the end of 1982. During the last half of the 1970's and into the 1980's, personal loans secured by second mortgages of many sizes and maturities, and made for purpose as diverse as purchase of a home to paying college tuition and for vacations, have become increasingly popular among lenders, and especially among consumer finance companies.

TABLE 25

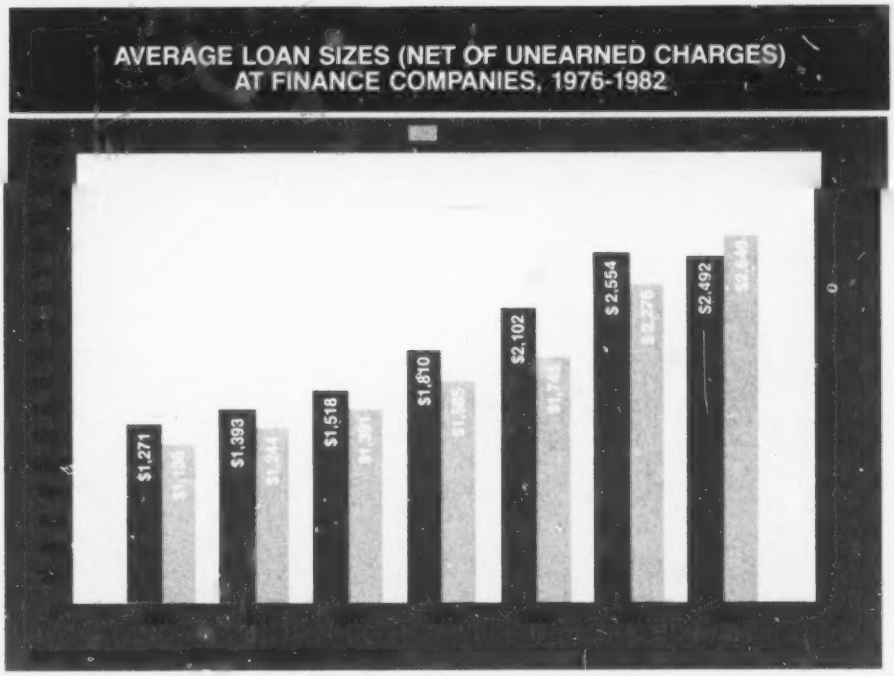
GROWTH IN SECOND MORTGAGE AND OTHER PERSONAL LOANS AT A SAMPLE GROUP OF FINANCE COMPANIES, 1977-1982

	1977	1978	1979	1980	1981	1982
	(In millions of dollars)					
Personal Loans	14,553	17,092	21,530	22,972	24,205	23,864
Second Mortgage	2,124	3,783	6,938	9,668	13,086	14,029
Other Personal Loans	12,429	13,309	14,592	13,304	11,119	9,835
Total Consumer Receivables	37,777	45,666	58,061	63,865	74,940	78,066

*Includes retail automobile contracts for business purposes.

Source: American Financial Association Surveys.

CHART 19



Larger amounts lent on second mortgages make the fixed transactions costs of making the loan small as a percent of the amount loaned, and the security (usually in the form of home equity) makes this kind of personal loan an attractive product for consumer finance companies. While data on the amount of second mortgage loans outstanding are not available, it is generally believed that finance companies are the largest holders of such credit. AFSA's Research Report and Second Mortgage Lending Report Supplements 1977-1981 and 1982 reveal a pattern of strong growth in seconds at a consistent sample of such companies over the six years (Table 25).

Size and Number of Loans and Contracts

Two factors generally control the size of loans made by finance companies. The legal "loan ceiling" sets an upper limit on the size of loans made in a particular jurisdiction (usually a state). The maximum loan size under small loan laws has been increased in recent years in a number of states. Several states also have general usury laws or specific second mortgage laws that affect the size of loans finance companies are willing or allowed to make. Table 26 shows the consumer finance laws in effect in various states. (See AFSA "Summary of Consumer Credit Laws and Rates" for further details.)

The second factor influencing the size of loans made stems from the interplay between the maximum authorized rates and the demand for loans of various sizes. Finance companies generally try to offer full loan service, that is, they try to serve customers who need both small and large loans. However, the yield on small loans is often considerably below the unit cost of operation, making it economically impossible for any institution to have a very large proportion of loans outstanding in the form of very small loans. Rising consumer prices, however, have reduced the consumer demand for very small loans, somewhat alleviating this problem.

According to AFSA surveys of member finance companies, the average size second mortgage personal loan made (at 62 companies responding) in 1982 was $13,464 (excluding unearned charges). This compares with an average non-second-mortgage personal loan size of $1,731 (Table 27).

The same 62 companies also provided sufficient detail to show average size sec-

TABLE 26

LOAN LAWS UNDER WHICH FINANCE COMPANIES OPERATE, BY STATE

	Consumer Finance	Other Loan	Revolving Loan	Second Mortgage
Alabama	X		X	
Alaska		X		
Arizona	X	X	X	
Arkansas	(Usury statue only)			
California				
Colorado	(Uniform Consumer Credit Code)			
Connecticut		X	X	X
Delaware				
District of Columbia				
Florida	X	X		
Georgia	X	X		
Hawaii	X			
Idaho	(Uniform Consumer Credit Code)			
Illinois	X	X	X	
Indiana	(Uniform Consumer Credit Code)			
Iowa	X	X	X	
Kansas	(Uniform Consumer Credit Code)			
Kentucky	X	X		
Louisiana				
Maine	(Most licensees have ceased business)			
Maryland	X			X
Massachusetts	X	X	X	X
Michigan	X			X
Minnesota	X	X		
Mississippi	X	X	X	
Missouri	X			
Montana				
Nebraska				
Nevada	X	X		
New Hampshire	X			X
New Jersey				X
New Mexico	X	X	X	
New York				By rule
North Carolina	X	X	X	X
North Dakota				
Ohio				
Oklahoma	(Uniform Consumer Credit Code)			
Oregon				
Pennsylvania				X
Rhode Island	X	X		X
South Carolina	(Uniform Consumer Credit Code)			
South Dakota				
Tennessee				
Texas				X
Utah	(Uniform Consumer Credit Code)			
Vermont	X	X		X
Virginia	X	X	X	X
Washington	X	X		
Wisconsin		X	X	X
Wyoming	(Uniform Consumer Credit Code)			

Source: American Financial Services Association.

TABLE 27

AVERAGE LOAN SIZES AT FINANCE COMPANIES, 1981 AND 1982

(Net of Unearned Charges)

	Loans Made	Loans Outstanding
SECOND MORTGAGE PERSONAL LOANS		
1982 (62 cos)	$13,464	$12,245
1981 (53 cos)	$13,354	$11,508
OTHER PERSONAL LOANS		
1982 (62 cos)	$1,731	$1,664
1981 (53 cos)	$1,561	$1,247

Source: American Financial Services Association Surveys.

ond mortgage loans outstanding of $12,245 and average size non-seconds outstanding of $1,664.

Automobile finance contracts are on average much larger than (non-second-mortgage) personal loans. Federal Reserve data reveal that the average amount financed on new automobiles (again excluding precomputed charges) increased from $8,173 in 1982 to $8,787 in 1983 (Chart 20). For used cars, the amount financed by finance companies increased from $4,744 in 1982 to $5,033 in 1983.

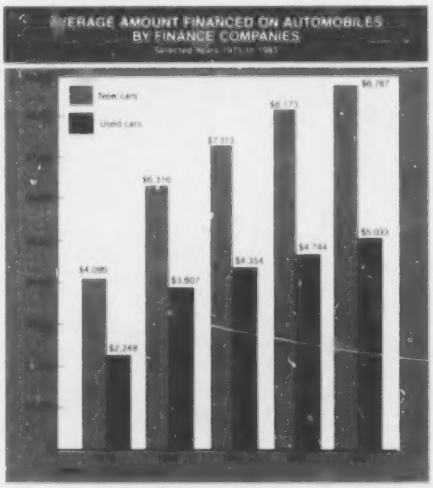
Rates of Charge

Laws governing the maximum rates that consumer installment credit companies may charge are determined by each state. Rates of charge permitted may differ for new and used automobile financing, other goods financing, for cash loans, and for open-ended credit. The rates quoted in this section are annual pecentage rates (APR), calculated in the manner prescribed by the Truth in Lending Law.

Rates of charge for cash loans generally vary from 36% and over annually on the smallest to 18% or less on larger well secured loans. Federal Reserve data reveal that finance companies charged an overall averate rate of 23.1% on loans made in 1982 (the last date for which rates were collected).

Large ticket items such as automobiles, which have a resale value, can usually be financed at lower rates. According to Federal Reserve surveys, the average annual rate charged by finance companies in 1982 for financing of new autos was 15.8% and for used autos 20.8%. Finance company rates for mobile homes averaged 18.8% in 1982. Financing of consumer goods other than autos and mobile homes, spec-

CHART 20



ifically items of less cost and not usually resalable, cost an average of 22.6% per year at finance companies in 1982.

Types of Rate Quotation

Various types of rate quotation were permitted (or required) by states prior to passage of the Truth in Lending Act. Two types of rate quotation on small loans provide an example. Both types lumped all finance charges into a single rate, although additional charges were permitted (and regulated) in most states to cover the cost of insurance when the borrower desired such coverage. Both forms of quotation also permitted the borrower to repay his loan without penalty at any time before the contract matured.

The older form of rate quotation was the percent per month of the unpaid balance. Illinois' small loan law, for example, was of this type and permitted charges as follows: 2½% per month on the first $300 outstanding, 2% per month on the amount between $300 and $600 outstanding, and 1½% per month on the amount between $600 and $3,000 outstanding. Applying these rates, a $1,000 loan repaid in 12 equal monthly installments of $95.36 would cost the borrower $144.32 in interest, an effective 25.67% APR.

Many states also adopted a form of rate quotation for small loans similar to that frequently used by retail stores in quoting consumer installment credit. This form of quotation is referred to as add-on, meaning that a certain number of dollars is added to the amount of the contract to be repaid. Ohio's small loan law is an example of this type allowing $16 add-on per $100 per year up to $750, $11 per $100 per year on the amount between $750 and $1,500, and $9 per $100 per year on the amount between $1,500 and $3,000. In this case, a loan of $1,000 repaid in 12 monthly installments of $95.62 each would cost the borrower $147.44 in interest or an effective 26.18% APR. For larger loans, the annual percentage rate is lower. For example, the finance charge for a loan of $4,000 in Colorado under the Uniform Consumer Credit Code is $433.04 amounting to an annual percentage rate of 19.42%. The total of $4,433.04 is repayable in 12 monthly installments of $369.42 each.

Terms of Finance Contracts

The maximum length of loan or sales finance contracts is also limited by the applicable legislation or regulation in each state. Company policy, however, may restrict maturities to a shorter term than that permitted by law.

Federal Reserve data reveal that in November 1983, new auto contracts written by major finance companies had an average length of 46.3 months, almost equal to the average of 46.4 months in November 1982. Used car contracts in November 1983 had average maturities of 38.0 months, up quite a bit from 36.9 months in November 1982. Loan-to-value ratios at auto finance companies for new cars in November 1983 averaged 86% and for used cars 93%, compared with 87% and 91% a year earlier.

Consumer Borrowers

Most of the information for this and the following sections on the assets, liabilities and income of finance companies was obtained from American Financial Services Association surveys for which the latest data collected are for the year 1982.

Traditionally, the "character" of the borrower was the significant factor considered by finance companies making loans, although increasing emphasis has been placed on real security in recent years. Except in the case of large loans, security in the form of tangible personal property frequently has little market value. To the borrower, however, it may have considerable subjective value and his willingness to use it as security establishes evidence of his good faith. Reports of various state supervisory authorities show that consumer finance companies seldom take possession of security on small loans.

Although less detailed information on the purposes of second mortgage loans made at the finance companies responding

to the AFSA survey in 1982 is available than on the purposes of other personal loans. Table 28 reveals that the majority of real-estate secured loans were taken for uses not involving the purchase or transfer of real estate. More specifically, seconds are now being used primarily to finance such activities as vacations, college tuition, home improvements, etcetera. A large portion (around 20%) of the smaller other personal loans are still used to consolidate and/or refinance existing debts.

The characteristics occurring most often among the second mortgage customers of the surveyed companies include: age is between 35 and 44 years, annual income is between $15,000 and $24,000, occupations are operatives, laborers, managers, proprietors, etc. Second mortgage loans are made most frequently in amounts between $5,000 and $10,000 (net of unearned charges). For other personal loan borrowers: age is most frequently between 25 and 34 years, annual income between $15,000 and $24,000. Occupations are again most frequently operatives, laborers, clerks, etc. and loans are most frequently made in net amounts between $500 and $1,000, with an almost equal proportion made between $2,000 and $5,000 (Tables 29 and 30).

Structure of the Finance Company Industry

The finance company industry has undergone many changes in the past few years and necessarily AFSA's annual survey has changed along with the industry. Earlier reports had been designed to reflect characteristics of two separate types of finance companies dealing with con-

TABLE 28

PERCENTAGE DISTRIBUTION OF PERSONAL LOANS MADE AT FINANCE COMPANIES IN 1982, BY PURPOSE

	Percent of Reported Loans Made in 1982	
Second Mortgage Personal Loans	Number	Amount
Purchase or Transfer of Primary Residence	19.6%	24.3%
Other Real Estate Purchase	1.5%	2.1%
Other	79.0%	73.6%
TOTAL	100.0%	100.0%
Number of Companies: 12		
Number of Cash Loan Offices: 2,492		
Average Size Loan Made: $13,812		
Other Personal Loans		
Consolidation of existing bills	19.8%	22.5%
Travel, vacation and education expenses	11.8%	10.7%
Automobile purchase or repair	14.0%	15.0%
Home furnishing and appliances	6.0%	5.2%
Household repairs	5.4%	6.0%
All other purposes	43.0%	40.6%
TOTAL	100.0%	100.0%
Number of Companies: 11		
Number of Cash Loan Offices: 4,531		
Average Size Loan Made: $1,829		

Source: American Financial Services Association Surveys.

TABLE 29

PERCENTAGE DISTRIBUTION OF LOANS MADE AT FINANCE COMPANIES IN 1982, BY CHARACTERISTICS OF BORROWERS

	Percent of Number of Loans Made to:	
	Second Mortgage Personal Loan Borrowers	Other Personal Loan Borrowers
By Annual Income		
$6,000 or less	1.6%	2.2%
$6,001 to $9,000	3.8%	10.4%
$9,001 to $15,000	22.1%	35.3%
$15,001 to $24,000	39.0%	34.5%
Over $24,000	29.6%	14.1%
	3.9%	3.5%
Total	100.0%	100.0%
By Age		
Less than 25 years	1.8%	9.9%
25 to 34 years	22.4%	36.8%
35 to 44 years	34.8%	25.1%
45 to 54 years	25.3%	16.6%
55 to 64 years	13.6%	10.0%
65 years and over	2.1%	1.5%
Total	100.0%	100.0%

Source: American Financial Services Association.

sumers: 1) consumer finance companies — those companies primarily engaged in making cash loans to consumers; and 2) sales finance companies — those companies primarily purchasing retail installment sales contracts from retailers and dealers. This division seemed appropriate for many years since each type of company had discrete attributes. Consumer finance companies generally made smaller size loans, relied relatively more heavily on long-term borrowing as a source of funds, and operated from relatively more offices (with more operating overhead) per unit of receivables. Sales finance companies generally made larger loans (more frequently secured), and relied relatively more on short-term commercial paper as a funds source.

Generalizations of this type no longer apply. In recent years many finance companies have diversified both their assets and their liabilities — especially the large companies. Consumer finance companies now often purchase installment sales contracts through their cash loan offices. Sales finance companies have entered the cash loan business. Both types of companies are also active in many forms of commercial financing, a particularly rapidly growing portion of the business of some companies. Although smaller companies are likely to be more specialized than larger companies (usually in cash lending), many smaller companies have become more diversified as well. Because of these changes, the main distinction among companies is now division by size of company rather than by type. Distributions of assets, liabilities, income, and other totals are presented separately for companies with receivables of $1 billion or more and for companies with receivables of less than $1 billion. Then, within these major size classifications the same distributions are presented for com-

TABLE 30

PERCENTAGE DISTRIBUTION OF U.S. HOUSEHOLD POPULATION BY ANNUAL INCOME AND BY AGE, 1982

By Annual Income	
$5,000 or less	9.6%
$6,001 to $10,000	14.3%
$10,001 to $15,000	13.5%
$15,001 to $20,000	12.2%
$20,001 to $25,000	11.4%
$25,001 to $30,000	9.4%
$30,001 to $40,000	13.3%
$40,001 to $50,000	7.5%
$50,001 to $75,000	6.4%
Over $75,000	2.5%
Total	100%
Mean household income	$24,309
By Age of Householder	
Less than 25 years	6.8%
25 to 34 years	22.8%
35 to 44 years	19.1%
45 to 54 years	14.7%
55 to 64 years	15.6%
65 years and over	21.1%
Total	100.0%

Source: Bureau of the Census.
Note: Parts may not add to totals due to rounding.

panies with at least 50 percent of receivables in personal (cash) loans and for companies with less than 50 percent of receivables in personal loans.

Assets of Finance Companies

The American Financial Services Association, in its annual surveys of its members and other large nonmember companies, collects information on their assets and liabilities. For 1982, data were obtained from 106 companies, both large and small, which operated 11,280 offices throughout the United States (Table 31). These companies had total assets of $124.3 billion at the end of 1982 including $121.2 billion in accounts and notes receivable of which $29.8 billion was outstanding in personal loans.

Of the 106 companies responding to the survey in 1982, 88 were "small" companies, according to the above-mentioned classification scheme. These companies had assets of $5.5 billion including personal loans of $4.1 billion. Of the 106, 18 were "large" companies and held assets of $118.8 billion and personal loans of $25.8 billion.

Finance Companies' Liabilities and Sources of Funds

Finance companies take on all of the common forms of business organization, including the individual proprietorship, the partnership, and the corporation, with the latter predominating. Sources of funds have been generally the same as those of similar privately owned organizations in

other fields of endeavor. Thus, finance companies have competed with all other types of businesses in funds markets. The only exceptions are in those states where industrial banking companies are chartered, and these can compete for consumer deposits.

Data on the liabilities, capital, and surplus of finance companies are shown in Table 32. Data for all of the reporting companies combined show that the largest sources of funds (as a percent of liabilities and capital combined) were long-term debt (31.5%) and commercial paper (24.9%) at the end of 1982. Other sources of funds included: bank loans of 7.4%, thrift certificates of 1.7%, subordinated debentures of 5.3% and capital and surplus of 12.3%.

Income and Expenses of Finance Companies

Finance companies have diversified their income-generating activities in recent years. Some have expanded into financing durable goods and commercial financing, and other companies have

TABLE 31

ASSETS OF COMPANIES RESPONDING TO AFSA QUESTIONNAIRE
DECEMBER 31, 1982

	All Reporting Companies	Reporting Companies with Receivables of less than $1 Billion	Reporting Companies with Receivables of $1 Billion or more
		(In millions of dollars)	
Personal loans	29,839	4,064	25,775
Retail automobile paper*	47,726	971	46,755
Other consumer receivables	7,612	478	7,134
Business receivables**	36,066	444	35,622
Subtotal	121,243	5,957	115,286
Deduct reserves for unearned income	17,882	1,037	16,844
Subtotal	103,361	4,920	98,442
Deduct reserves for losses	2,093	135	1,959
Subtotal	101,268	4,785	96,483
Cash and Noninterest deposits	1,130	49	1,081
Time Deposits	564	78	486
U.S. Gov't & Other Marketable Securities	6,425	112	6,313
Other Loans & Investment	8,808	314	8,494
Other assets	6,134	180	5,953
TOTAL ASSETS	124,329	5,518	118,810
		(Number)	
Number of companies	106	88	18
Number of offices	11,280	2,566	8,714

Source: American Financial Services Association.
Note: Parts may not add to totals due to rounding.
* Includes retail automobile contracts for business purposes.
** Excludes retail automobile contracts for business purposes.

TABLE 32

LIABILITIES, CAPITAL, AND SURPLUS OF REPORTING FINANCE COMPANIES, 1982

	All Reporting Companies	Reporting Companies with Receivables of less than $1 Billion	Reporting Companies with Receivables of $1 Billion or more
		(in millions of dollars)	
Bank Loans	9,192	606	8,586
Commercial Paper	30,944	744	30,200
Other Short-term debt	8,014	873	7,141
Deposit Liabilities and Thrift Certificates	2,116	586	1,529
Long-term Indebtedness (excluding subordinated debentures)	39,137	885	38,252
Subordinated Debentures	6,546	499	6,047
All Other Liabilities	13,080	355	12,725
Subtotal - Liabilities	109,029	4,548	104,481
Capital, Surplus and Undivided Profits	15,300	970	14,329
TOTAL	124,329	5,518	118,810
Number of Companies Reporting	106	88	18

Note: Parts may not add to totals due to rounding.

Source: American Financial Services Association surveys.

purchased or merged with retail outlets. Leasing has also brought in additional income. Some finance companies, through subsidiaries, have entered or expanded insurance operations, writing not only credit life insurance but also other forms of insurance. In 1982, 13.4% of the gross income of 106 reporting finance companies came from sources other than accounts receivable (Table 33). Of total gross income, 9.7% was used for wages and salaries, 0.6% for advertising and publicity, and 5.8% for losses and loss reserves. After paying out 56.2% of gross income as their cost of borrowed funds, Federal income taxes of 5.7% of gross income were paid, leaving $1.8 billion in net income (8.9% of gross income).

Cost of Funds and Rate of Return

Summaries of the cost of borrowing and rate of return on equity for companies which reported such information in the 1982 AFSA survey are shown in Tables 34 and 35.

In general, the cost of borrowing (expressed as a percent of total assets) was higher for the small companies than for larger companies.

The mean rate of return on invested capital, defined as net income (after payment of income taxes), and expressed as a percentage of net worth (capital, surplus and retained earnings), for all 106 reporting finance companies in 1982 was 11.62% (Table 36), a marked improve-

TABLE 33

GROSS INCOME, EXPENSES AND NET INCOME OF REPORTING FINANCE COMPANIES, 1982

	All Reporting Companies	Reporting Companies with Receivables of less than $1 Billion	Reporting Companies with Receivables of $1 billion or more
	(In millions of dollars)		
Sources of Gross Income			
Accounts receivable	17,236	1,026	16,210
Other	2,673	189	2,484
Total	19,909	1,215	18,694
Uses of Gross Income			
Expenses other than cost of borrowed funds:			
Wages and salaries	1,939	214	1,725
Advertising and publicity	110	12	98
Net losses and reserves	1,165	93	1,071
Other	2,601	205	2,397
Subtotal	5,815	524	5,291
Cost of borrowed funds	11,189	512	10,677
Federal income taxes	1,128	68	1,060
Net income	1,777	111	1,666
Number of Companies Reporting	106	88	18

Source: American Financial Services Association.
Note: Parts may not add to totals due to rounding. See Table 30 for number of offices covered in this report.

ment over the 5.57% rate of 1982. Of interest is the similarity of return on investment in the two size groups, in contrast to the wide disparity that occurred during the previous year of significantly lower overall earnings. The 18 large companies, on average, earned 11.63% on invested capital in 1982, while the 88 small companies earned an 11.44% comparable rate. In 1981 these figures were 8.83% and 3.65%.

Regulation of Finance Companies

All of the federal and state statutes and regulations affecting corporations, partnerships and proprietorships generally apply to such organizations which provide consumer installment credit. In addition, finance companies are subject to special statutory provisions governing their operations by each of the states in which they operate, including the District of Columbia and Puerto Rico.

Some statutes which deal with retail sales financing require that contracts disclose certain information pertaining to the transaction but do not set maximum rates. Other statutes deal with goods financing only, others with financing of goods and services, and some only with motor vehicle sales finance agreements. Where statutes deal with motor vehicle sales there is generally a classification of cars by age.

TABLE 34

ESTIMATED OVERALL COST OF BORROWING IN 1982, FINANCE COMPANIES, BY SIZE OF COMPANY

Companies with Consumer Credit Outstanding of:	High	Low	Median	(Number of companies)
$500 million and over.....	14.14%	9.61%	11.95%	17
$150 million and less than $500 million	13.94%	11.25%	12.27%	6
$50 million and less than $150 million	16.04%	11.91%	12.67%	9
Less than $50 million	17.00%	6.48%	13.06%	29
Total	17.00%	6.48%	12.45%	61

Source: American Financial Services Association.

TABLE 35

ESTIMATED RETURN ON EQUITY IN 1982, FINANCE COMPANIES* BY SIZE OF COMPANY

Companies with Consumer Credit Outstanding of:	High	Low	Median	(Number of companies)
$500 million and over	20.79%	5.35%	11.26%	17
$150 million and less than $500 million	23.66%	6.64%	15.72%	7
$50 million and less than $150 million	22.22%	4.20%	14.50%	10
Less than $50 million	25.04%	0.0%	6.05%	25
Total	25.04%	0.0%	9.52%	59

Source: American Financial Services Association.

*Includes Finance Companies responding to AFSA Annual Survey and reporting Return on Equity of zero or greater.

TABLE 36

RELATION OF INCOME TO OUTSTANDINGS, ASSETS AND EQUITY, FINANCE COMPANIES, 1982

	All Reporting Companies	Reporting Companies with Receivables of $1 Billion or more	Reporting Companies with Receivables of less than $1 Billion
Finance charges collected as a percent of year-end net outstandings	16.68%	20.85%	16.47%
Cost of borrowed funds and net income as a percent of total assets at year-end			
Total	10.43%	11.30%	10.39%
Cost of borrowed funds	9.00%	9.28%	8.99%
Net income after taxes	1.43%	2.01%	1.40%
Net income after taxes as a percent of capital, surplus and undivided profits	11.61%	11.44%	11.63%

Source: American Financial Services Association.

In most states, the supervisory authority is a division of the Banking Department which is frequently empowered to supplement the statutes by promulgating rules and regulations. Elsewhere, similar power rests with other agencies or departments. In Ohio, for example, it rests with the Director of Commerce and in California with the Commissioner of Corporations.

Many states' laws require consumer loan licensees to report regularly (usually annually) on their operations to the state supervisory authorities. In practically all states, annual examination by these authorities is required by law and examinations at other times are permitted. The costs of such examinations, in addition to the annual license fee for each operating office, are in most states borne by the licensees.

While large loans are made under various statutes, including second mortgage laws, many of the installment loans of consumer finance companies are still made under provisions of laws derived from and containing the essential elements (although not all of the specific provisions) of the "Uniform Small Loan Law" originally promulgated by the Russell Sage Foundation in 1916, and the "Model Consumer Finance Act" drawn up by the National Consumer Finance Association in 1948. The terms "Uniform Small Loan Law" and "Model Consumer Finance Act" have come to be used interchangeably. Regulatory features consist of provisions with respect to the following: 1) licensing by a state supervisory official, 2) supervision by a state supervisory official having powers to enforce and interpret the law, 3) authorization of adequate charges to permit complete service, 4) limitation of charges, 5) regulation of contract provisions, 6) disclosure of terms and status of loan transactions, 7) prohibition of evasions and subterfuges, and 8) penalties and enforcement powers. The restrictive provisions of many of these laws in the

past prevented finance companies from lending competitively with other institutions and in order to become more competitive, finance companies have in recent years encouraged less restriction in lending laws under which they operate.

Industrial Banking Companies

The generic term "industrial banking companies" is used to include those institutions which are chartered by state law to extend installment credit to consumers and to accept some form of savings deposit or sell investment certificates or certificates of deposit as at least a partial means of financing the operation. By virtue of this feature, their membership in Automated Clearing Houses, and their participation in the direct deposit program of U.S. Treasury checks, industrial banks are distinguished from (non-depository) finance companies as being depository institutions. Legislative and policy changes were made during 1982 and 1983 that further that distinction. The definitions of "state banks," "deposit," and "commercial loans" have been expanded to include industrial banks, their deposit-like instruments and some of their assets, with implications for their eligibility for FDIC deposit insurance and for their non-bank status.

While they may be descended from one common type of institution, namely the Morris Plan companies, many changes have taken place since the founding of the Fidelity Savings and Trust Company, the

TABLE 37

INDUSTRIAL BANKING INDUSTRY BY STATE[1]

	As of:	Companies	Companies
Arkansas	12/82	3	3
California	12/82	86	644
Colorado	12/82	154	154
Connecticut	12/83	0	0
Florida	12/82	3	3
Hawaii	12/82	78	231
Indiana	6/82	5	18
Iowa	12/82	56	201
Kansas	12/83	11	43
Kentucky	6/83	28	110
Minnesota	12/82	28	143
Missouri	12/82	2	2
Nebraska	12/82	36	36
Nevada	12/82	6	21
North Carolina	6/83	1	1
Rhode Island	12/82	11	23
Tennessee	12/83	422	422
Utah	12/82	56	110
Washington	12/82	26	189
West Virginia*	12/82	70	87
TOTAL		1,082	2,441

1/Companies with authority to issue deposits or deposit-like instruments, which may carry a variety of titles. In some states, not all companies with this authority have chosen to exercise it.

* Industrial Banks and Industrial Loan Companies combined.

Source: American Financial Services Association.

first industrial banking company, and the rules under which today's companies operate differ significantly between states. Looking at their "deposits or deposit-like instruments," for example, Investment Certificate Corporations in Kentucky are not financial institutions, have no deposit taking authority, and are licensed only to sell securities. They are regulated not only by the state banking or financial authority, but by the securities commission. At the same time, also falling into the category "industrial bank" are the institutions chartered in Rhode Island as Loan and Investment Companies or, as they are now authorized to call themselves, Loan and Investment "Banks." Not only are their savings accounts given full deposit status, but the institutions are also authorized to accept demand deposits.

The lending powers of "industrial banks" vary greatly between jurisdictions as well. In this respect, Arizona, where no Industrial Banks operate because of an interest rate restriction of 10% per year discount and maturity restricted to one year, can be compared to California, where 9% of loans made by Industrial Loan Companies in 1982 were for amounts over $10,000 and 24% of the dollar amount loaned was classified as "non-consumer" loans. Even the nature of the various institutions differs, most but not all states considering them financial institutions. Within some states (Tennessee and West Virginia for example), separate charters have been created to recognize and provide for some of these differences. The characterization of all of these institutions as "industrial banks" is maintained, however, on the basis that these are largely definitional and legal distinctions, and that, both functionally and in the way they are perceived by their customers, the institutions are very similar.

Table 37 indicates the number of industrial banking companies and offices operated in 1982-83 in twenty states. For the same states, Table 38 shows a breakdown of assets by state, which probably totaled about $7.5 billion in 1982, while Table 39 shows the liabilities and net worth of industrial banking companies by state. In 1982, deposits and thrift investment certificates of these companies were in the neighborhood of $4 billion, while overall capitalization was around 16%.

State deposit insurance corporations for industrial banks have been formed and are known generically as guaranty corporations in the states of California, Colorado, Hawaii, Iowa, Kansas, Nebraska, Nevada, Rhode Island, and Utah. These corporations serve the specific purpose of guaranteeing the deposits of insured industrial banking companies. Institution of deposit guarantees by these corporations initially brought additional deposits into the industrial banking companies. However, as the amounts of deposit insurance for savings and loans and commercial banks were increased (from $10,000 to $40,000, and again in 1980 to $100,000), it became less attractive to keep deposits at industrial banking companies since other types of depository institutions were insured for larger amounts. The collapse in 1982 of the Nebraska Depository Institutions Guarantee Corp. further shook confidence in industrials in that state, although provisions for other deposit insurance are being arranged by many of the Nebraska institutions.

Uniform Consumer Credit Code

With the entry of various institutions such as finance companies, industrial banking companies, commercial banks, credit unions, retailers, savings and loan associations, and mutual savings banks into the consumer credit business, the laws applicable to each type of institution were amended. In the absence of previous legislation, new laws were passed to regulate the consumer credit aspects of these businesses. As a result, most states have in effect a number of laws which may vary as to rates, supervision, and other legal requirements placed on consumer creditors.

The Uniform Consumer Credit Code, which is an indirect descendant of the earlier-mentioned "Uniform Small Loan Law" and the "Model Consumer Finance

TABLE 38

ASSETS OF INDUSTRIAL BANKING COMPANIES, BY STATE

(Year-end 1982 or most recent fiscal year)

	Net Receivables	Other Assets	Total Assets
	(in thousands of dollars)		
Arkansas (6/83)	20,771	12,593	33,364
California	1,397,941	194,420	1,592,361
Colorado	748,493	167,823	916,316
Florida	19,990	12,529	32,519
Hawaii	1,017,983	279,472	1,297,455
Indiana (6/82)	252,977	50,449	303,426
Iowa	342,182	140,845	483,027
Kansas	124,703	14,636	139,339
Kentucky (6/83)	47,742	8,530	56,272
Minnesota	284,871	33,114	317,985
Missouri	7,342	3,206	10,548
Nebraska	279,809	109,474	389,283
Nevada	104,083	37,375	141,458
North Carolina (6/83)	2,779	3,118	5,897
Rhode Island	308,840	318,614	627,454
Utah	474,516	130,624	605,140
Washington	274,294	5,699	279,993
West Virginia*	112,383	33,034	145,417

* Industrial Banks and Industrial Loan Companies Combined.

Source: American Financial Services Association.

Act," was designed as a single law to govern all consumer credit contracts and as a replacement for a multitude of differing state laws including small loan laws, sales finance and revolving credit laws, usury laws, and laws regulating insurance premium financing, home repair financing and second mortgage loans. Consumer credit as defined by the UCCC consists of loan and sale credit to individuals for personal, family, household, or agricultural purposes, including the purchase of a home or farm, when there is a charge for the credit or the credit is repayable in installments. The UCCC would regulate all consumer credit as defined for amounts up to $25,000, with provisions for increasing the ceiling based on increases in the Consumer Price Index.

The UCCC would fix the same maximum rates for all types of consumer credit grantors. Originally, for example, UCCC maximum rates for installment credit (loans and sales finance) were 36% per year on the first $300 loaned, 21% per year on the next $700, and 15% per year on the remainder, with the provision that steps would be increased based on changes in inflation. When these graduated rates yield less than 18% per year, the maximum would be 18% per year.

The UCCC also includes significant consumer protection provisions as to disclosure of contract terms, advertising, balloon payments, security, garnishment and other creditors' collection remedies, unconscionable or fraudulent conduct, "cooling-off" period for door-to-door sales, referral sales, rescision of contracts secured by the debtor's home, and official surveillance and enforcement by an Administrator. There are heavy civil and criminal penalties specified for violations of the UCCC.

The revisions contained in the UCCC (1974) reflected changes in response to many of the recommendations made by the National Commission on Consumer Finance established by the Consumer Credit Protection Act. The revised UCCC substantially implements the National Commission's recommendations as to buyers' defenses in installment and credit card sales and in sale-related loans, deficiency judgements, service of process, limitations on garnishment, debt collection practices, door-to-door sales, and cosigner agreements.

The Uniform Consumer Credit Code has been adopted in Colorado, Idaho, Indiana, Kansas, Maine, Oklahoma, Utah, and Wyoming. Other states, such as Louisiana, Alabama, West Virginia and Wisconsin, have passed general statutes containing various elements of the UCCC.

Consumer Credit Protection Laws

Finance companies and industrial banks, like all other creditors, are subject to the Federal Consumer Credit Protection Act and other laws which mandate special procedures concerning credit or information about consumer borrowers.

Federal protection of consumer borrowers began in 1968 with the passage of the Consumer Credit Protection Act. Title I of this legislation, the Truth in Lending Act, mandated that creditors disclose credit terms to promote the informed use of credit by consumers. It also required the Board of Governors of the Federal Reserve System to prescribe regulations to carry out the purposes of the act. Specific Federal agencies administer the Board's regulations. Pursuant to congressional instructions, the Board issued Regulation Z,

TABLE 39

LIABILITIES OF INDUSTRIAL BANKING COMPANIES BY STATE

(Year-end 1982 or most recent fiscal year)

	Deposits and Thrift/Investment Certificates	Other Liabilities	Total Capital	Total Liabilities and Capital
		(in thousands of dollars)		
Arkansas (6/83)	30,019	654	2,691	33,364
California	1,266,241	138,096	188,024	1,592,361
Colorado	371,734	408,582	136,000	916,316
Florida	26,828	170	5,521	32,519
Hawaii	489,942	610,644	196,869	1,297,455
Indiana (6/82)	271,617	6,783	25,026	303,426
Iowa	208,079	142,099	132,849	483,027
Kansas	48,335	75,977	15,027	139,339
Kentucky (6/83)	10,816	22,100	23,356	56,272
Minnesota	49,927	166,483	101,575	317,985
Missouri	6,915	767	2,866	10,548
Nebraska	335,111	15,730	38,442	389,283
Nevada	126,746	3,878	10,834	141,458
North Carolina (6/83)	4,411	46	1,440	5,897
Rhode Island	566,196	18,363	42,895	627,454
Utah	387,267	113,191	104,682	605,140
Washington	58,953	132,608	88,432	279,993
West Virginia*	66,628	24,405	54,384	145,417

* Industrial Banks and Industrial Loan Companies Combined.

which provided, among other things, for disclosure of the actual "finance charge" for credit and of the effective "annual percentage rate" to be calculated using standardized methods.

Since this initial action, the Congress has amended the Truth in Lending Act repeatedly and has also enacted new consumer credit laws as follows: Fair Credit Reporting Act (1970), Credit Card Amendments to Truth in Lending (1970), Technical Amendments to Truth in Lending (1974), Fair Credit Billing Act (1974), Equal Credit Opportunity Act (1974), Federal Trade Commission Improvement Act (1975), Home Mortgage Disclosure Act (1975), Equal Credit Opportunity Act Amendments (1976), Consumer Leasing Act (1976), Fair Debt Collection Practices Act (1977), Community Reinvestment Act (1977), and Electronic Fund Transfer Act (1978). As Title VI of the Depository Institutions Deregulation and Monetary Control Act of 1980, "Truth in Lending Simplification" was enacted.

The administrative structure for many of these laws parallels that of the Truth in Lending Act. The Congress states its general intent and instructs the Board of Governors of the Federal Reserve System to issue regulations that apply to institutions granting consumer credit. Thereafter the Federal agencies with primary supervisory responsibility for each class of creditors administer the Board's regulations for those creditors.

Report of the National Commission on Consumer Finance

The Consumer Credit Protection Act of 1968 also created a National Commission on Consumer Finance, whose duty was to study and appraise the functioning and structure of the consumer finance industry, as well as consumer credit generally. The Commission made its report to the President and Congress on December 31, 1972.

The Commission concluded that a truly competitive consumer credit market, with adequate disclosure of relevant facts to an informed consuming public, together with legislation and regulation to eliminate excesses, will foster economic growth and serve to optimize benefits to the consumer. As to excesses in the marketplace, the Report recommended significant additions to the protection of consumers in the fields of creditors' remedies and collection practices, urging restrictions on remedies such as garnishment, repossession and wage assignment, and recommending abolition of the holder in due course doctrine, confessions of judgement, and harassing tactics in debt collections.

The Commission's research studies contain the empirical data, information and analysis relied upon by the Commission. These six technical studies are as important as the Report itself and provide some data not available elsewhere.

One of the research volumes by the National Commission on Consumer Finance released early in 1974 (Technical Studies, Volume III), contains many tables of information on installment credit by states at mid-1971 — the only attempt at a comprehensive state-by-state compilation.

Electronic Fund Transfer Systems

The development of Electronic Fund Transfer Systems (EFTS) has hastened an evolution in the payments system in which the commercial banking system is no longer the exclusive vendor of the means of money transfer. A growing number of institutions and industries outside of banking are offering money or near-money deposit arrangements and providing money transfer services.

The major contenders for money transfer powers have been the nonbank depository institutions: savings and loan associations, mutual savings banks, credit unions and industrial banks. Non-depository consumer finance companies, credit card companies, retailers, insurance companies, and new institutions (such as money market funds) are displaying increased interest in the direct transfer of funds. Technology has been

the instigator in this area and legislation has been passed which is permitting changes whereby commercial banks may be bypassed in funds transfers.

Over the past two decades, the operations of financial institutions have become increasingly computerized, but mostly in ways that did not directly affect the manner in which ordinary Americans transact their financial affairs. In the last few years, however, the consumer has begun to be offered computerized services that take over some of the functions of checks and currency. Many depository institutions now offer automated deposit and withdrawal services; many social security recipients and employees have their checks deposited electronically into their accounts; and some consumers are able to pay bills directly, without the use of cash or checks. These services are being facilitated by the technology that has become known as electronic fund transfers (EFT).

To learn more about EFT and to obtain a variety of views on the appropriate public policy toward EFT, the Congress established the National Commission on Electronic Fund Transfers to study and report, with recommendations, on all aspects of EFT with which the Congress should be concerned.

The final Report of the National Commission on Electronic Fund Transfers which was released on October 28, 1977, was divided into eight parts: The Commission and Its Work; The Consumer and EFT; Developmental Issues in EFT; Technology and EFT; Roles of the Federal Government in EFT; and International Developments in EFT. Part 7 offers the separate statements of various Commissioners on various issues. Part 8 provides a series of nine appendixes containing the text of the Act which established the Commission, the votes of Commissioners on certain recommendations, a description of the payments system in the United States, and several descriptive appendixes regarding the Commission's work.

The Report reflected the Commission's recognition that EFT was (and still is) in the midst of an evolutionary process and that only the first steps had at that time been taken in its potential development. The Commission adopted the principle that the growth of EFT should take place in a competitive environment, that EFT should be viewed as an alternative means to provide payment services and that all evidence suggested that the paper-based system will remain in operation indefinitely. The Commission also accepted the thesis that the future of EFT is inextricably tied to consumer acceptance.

Essentially the Commission viewed EFT only within the existing institutional framework. It did not attempt to offer alternative scenarios for possible development in the future. By virtue of this approach, finance companies, which offer only credit and have no deposit capability, were considered in relation to credit markets and information transfer services, but not in relation to funds transfer services. In contrast, industrial banking companies, which offer passbook or other deposit-like consumer services, would be included among the thrift institutions and subject to the conclusions and recommendations of the Commission.

Depository Institutions Deregulation and Monetary Control Act of 1980

The Depository Institutions Deregulation and Monetary Control Act of 1980, which became law on March 31, 1980, will have as far-reaching effects on financial institutions as did the Federal Reserve Act of 1913 and the various banking legislation of the 1930's. Through its nine titles consisting of 101 sections, the Act will have impact on the operations of all financial institutions, both depository and nondepository.

The Act will change the nature of our monetary system. All accounts of depository institutions subject to transfer of funds to third parties are incorporated into our country's medium of exchange. To effect this modernization of the monetary concept, the Act introduced the concept of "transaction account" which is defined as any deposit or account on which the de-

positor or account holder is permitted to make withdrawals payable to a third party. The Act also introduced the concept of the "non-personal time deposit" which is a transferable time account in which any beneficial interest is held by a depositor who is not a natural person. Beginning September 4, 1980, all depository institutions (banks, savings and loan associations, and credit unions) were required to maintain reserves against such accounts. Members of the Federal Reserve System were to adjust to this new structure of reserve requirements over a three and one-half year period. Non-member banks, savings and loan associations, credit unions, and industrial banks were to be phased into the reserve requirements over an eight-year period. Depository institutions subject to these reserve requirements also have access to the Federal Reserve services.

The Act continues to alter the form and substance of regulations applied to depository institutions. To monitor and control monetary and credit aggregates, the Federal Reserve Board requires reports of assets and liabilities of all depository institutions including those that are not federally insured. The latter is accomplished through such state officer or agency as the Board may designate. To phase out the limitations on maximum rates of interest on deposits (Regulation Q) over a six-year period, the Act created a Deregulation Committee consisting of the Secretary of the Treasury, the chairmen of the federal regulatory agencies of depository institutions, and the Comptroller of the Currency. The committee's assignment was to provide depositors with a market rate of return on their savings, a task largely complete by the end of 1982.

The Act provided for a redefinition of money and near-money, that is, demand deposits, time deposits and savings deposits. The Deregulation Committee has the authority to prescribe rules governing the payment of interest by all federally insured depository institutions and to establish classes of deposits or accounts. This may be done by the gradual increase in such limitations, the complete elimination of limitations on particular accounts, the creation of new categories of accounts, the combination of any of these methods, or by any other method. On March 31, 1986, all powers transferred to the committee under the Act will terminate and the committee will cease to exist.

The Act expanded the powers of savings and loan associations to provide services as well as to obtain funds. Subject to regulations of the Federal Home Loan Bank Board, savings and loan associations may engage in or participate in credit card operations, offer loans specifically related to negotiable order of withdrawal (NOW) accounts, offer mortgages under certain circumstances of over 90% of appraised value, offer second mortgages and offer, with limitations, consumer loans and commercial real estate loans. As a source of funds, savings and loan associations may now issue mutual capital certificates which may be used as a part of the general reserve and net worth but must be subordinate to all savings accounts, certificates and debt obligations. Any state (stock) savings and loan association that existed in stock form by March 31, 1976 may convert to a federal (stock) charter under specified conditions.

The Act preempted state usury ceilings permanently in certain instances and was subject to override by state action in others. Usury provisions of state constitutions or laws affecting first liens on residential real property and manufactured homes taken after March 31, 1980 were preempted subject to override by state action after April 1, 1980, and before April 1, 1983. A somewhat similar provision for business or agricultural loans of $1,000 or more applied, except that a rate of not more than 5% above the Federal Reserve Bank discount rate was permitted. The preemption was subject to state override and expired on April 1, 1983. Insured state banks and thrift institutions, and small business investment companies may charge a rate of 1% above the basic Federal Reserve discount rate with no terminal date, but subject to state override. State restrictions on the rate of interest that may be paid on deposits were eliminated.

The Act amended the Truth in Lending Act to simplify and reduce the number and detail of disclosures and to make them more understandable. This part of the Act went into effect on October 1, 1982.

In summary, various sections of the nine titles of the Act have made and will continue to make changes in our financial system which will have impact upon many aspects of the operations of industrial banking companies. The Act will introduce more competition to the lending operations of finance companies, their markets for funds, and the legal framework under which they operate. The Act has created a new status for savings and loan associations including opening the federal charter to corporate stock savings and loan associations.

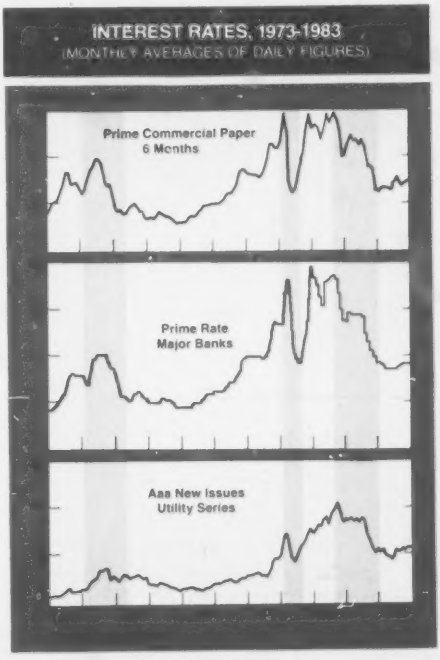
The Economy, 1982, 1983, and Beyond

Probably the most important, as well as the most acclaimed economic characteristic of 1982 was the significant slowdown in inflation, from the double-digit levels of previous years to a 6.0% annual rate for 1982, as measured by the Bureau of Labor Statistics' consumer price index annual averages and changes. Credit for this progress has been largely claimed by the Federal Reserve, as the result of its anti-inflationary monetary policy adopted some four years ago, although the inherently anti-inflationary effects of our recent prolonged recession experience should of course not be overlooked in considering this decline in inflation. The Fed has also acknowledged the high unemployment "cost" attendant to its policy, and has undoubtedly been at least partially responsible for maintaining an historically high level of interest rates through its basically tight monetary policy.

Chart 22 traces three key interest rates through ten years, and shows a clearly downward trend throughout 1982. It was this high level, despite the downward trend, which seemed to be the major stumbling block to the recovery beginning in early 1983. As a result of the large increases in the money supply measures, partly brought about by the introduction of the new deposit accounts at the end of 1982, speculation arose as to whether the Fed would begin to tighten the money supply. While the Fed and the Reagan Administration disagreed loudly on whether tight money or unprecedented deficits projected to be over $200 billion would cause rates to either slow their decline or even to rise again, both agreed with economists that unless interest rates made it more attractive to borrow and invest money in productive activity, they could choke off the still tenuous recovery.

Recovery continued not at all tenuously throughout 1983, however, with Gross National Product rising a total of 7.7% during the year. The strength of this recovery was surprising to many who had anticipated much more lethargic improvement. Employment increased markedly, as did industrial production and the utilization of capacity in manufacturing. Unemployment fell while the labor force grew consistently, and the Commerce Department's indexes of leading and coincident

CHART 21



economic indicators signalled continued if slightly slower growth during 1984.

Interest rates were comparatively stable throughout 1983, rising slowly during the second half of the year. Although the overall level of interest rates is still quite high by historical standards, this does not seem to have thwarted growth during 1983. Rates already show signs of rising more sharply during 1984, however, and at a more mature point in the recovery may slow growth.

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